AMERICAN BANKERS Association JOURNAL

JUNE 1933

The Future of Government Banking

Analysis of 100 Suspended Banks

Trust Services to Universities

PUBLISHED IN TWO SECTIONS · SECTION ONE

IMPORTANT ANNOUNCEMENT

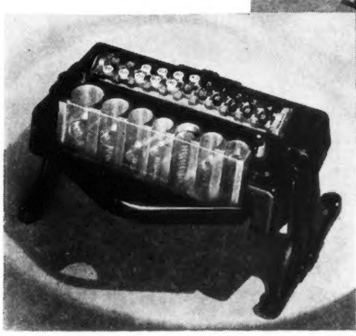
to users of cash registers and to banks and theatres

In addition to L C Smith Typewriters, Corona Typewriters and Corona Adders we have contracted to manufacture, guarantee and service

MONEX CHANGE-MAKERS

Mechanical change-makers in more than 20 years of banking service, and more recently in theatres, have demonstrated their accuracy, time-saving and convenience over making change by hand. Now, for the first time, a mechanical change-maker, the Monex, is available to users of cash registers.

Monex Change-Makers in the Cash Register Model (installed as illustrated) or Cashier Model (shown at left) are priced at $65.



L C Smith & Corona Typewriters, Inc. have entered into a contract to manufacture, guarantee and service the Monex Change-Maker—the only mechanical change-maker which can be installed in a cash register drawer. Our nation-wide branch office organization will be headquarters for Monex representatives.

The introduction of this lower-priced, more efficient and more compact change-maker could not be better timed. Monex competes in the present change-maker field—banks, theatres, restaurants and wherever cashiers are employed—at one-third to one-half the established prices. Monex enters a new field of change-making service without competition—the users of three million cash registers. With a Monex Change-Maker installed in the drawer, a cash register becomes a complete cashiering unit. Installation readily made by our local service men.

In market tests, the Monex Change-Maker has won immediate acceptance wherever demonstrated. It is one-third the size, one-half the weight, decidedly better in appearance and, to repeat—one-third to one-half the price of other change-makers.

The Monex Change-Maker is a perfected product, thoroughly tested in banking and general cashiering use. Endorsements and repeat orders have followed limited preliminary sales to some of the largest banks and outstanding concerns in various fields. The experience of users, the findings of nationally known industrial engineering counsel, and our own exhaustive tests warrant our guarantee for ten years as to workmanship and materials.

L C SMITH & CORONA TYPEWRITERS Inc.
Syracuse, New York

Exclusive Territorial Franchises are now being granted by Monex Corporation. Exceptional opportunities for men who want to be in business for themselves, and who can build and direct their own sales organizations. Details of past five years' experience and evidence of financial resources of $3,000 to $25,000, depending on size of operations, are required. Applications must be made in writing to Monex Corporation, Felix Renick, Vice-Pres., 22 West 32nd St., New York.

AMERICAN BANKERS Association JOURNAL

JUNE, 1933

DEPARTMENTS

Vol. XXV No. 12

PUBLISHED MONTHLY BY THE AMERICAN BANKERS ASSOCIATION AT 22 E. 40th ST., NEW YORK

Washington Office: 708 Colorado Building

Fred N. Shepherd, *Editor and Publisher*

William R. Kuhns, *Managing Editor*

L. E. Lascelle, *Business Manager*
Alden B. Baxter, *Advertising Manager*

Chicago: Robert W. Kneebone, 230 N. Michigan Ave.; Los Angeles and San Francisco: R. J. Birch & Co.

Entered as second-class matter May 5, 1909, at the Post Office at New York, N. Y., under the Act of March 3, 1879; additional entry at Greenwich, Conn.

Subscription $3.00 per annum; Canada $3.36; Foreign $3.72; Single Copies 25 cents

Bonds

The Gold Clause—Precedent and Experience

THE face of things in the bond market has been decidedly changed recently by an historic development—the voluntary relinquishment of the gold standard by the United States—and by the prospect of another development of equal historic importance—the deliberate attempt by a nation to raise the price level through "credit control".

That the market for listed bonds should have given a fairly good account of itself, with the dollar depreciating as much as 20 per cent, commodity prices rising daily and much uncertainty existing over the general scope and details of the national currency and credit policy, can be taken as evidence that the great army of investors retained much of its faith in the financial tradition of this country and in the political integrity of its present leaders. For if the investing public were inclined to believe that serious use would be made of certain of the inflationary powers conferred on President Roosevelt by a Congress distinguished in no way more than its lack of economic understanding, it would have fled from the money and fixed income securities and into property and equities with alarming speed.

All things considered, the bond market has borne up well. For a few days after the gold standard was definitely shelved the United States Government issues were somewhat in disfavor, but they soon were able to recover much of the lost ground. The market did not at all like the national repudiation of gold clauses in bond contracts, but this refusal to pay out gold according to bond indenture affected the dollar in the foreign exchange market more than it did the bond list. It cannot be said, however, that the foreign bond market took so lightly the abandonment of gold by the United States.

The position of foreign bonds was not helped by the departure of the dollar from gold. It was apparent to the more discerning that this country's decision to let the dollar shift for itself was but another step along the road of economic nationalism that leads to the destruction of foreign trade and old and new foreign financing alike. To those not discriminating in their conclusions it seemed at first that the gold embargo and the certainty that the dollar would depreciate would make it easier for hard pressed nations to pay interest and sinking fund on their dollar bonds, it being figured that a decline in the dollar below parity made for corresponding economies in buying exchange for debt service. This view did not make allowance for the fact that exchange is hardly ever "bought," but is procured in the main from exports. If exports are handicapped by depreciated and unstable exchanges, then foreign trade suffers, and foreign exchange for debt service is less.

So far as the severance of a currency from gold alters a country's trade balance, it has been proved by the experience of Great Britain and the Scandinavian countries in the last year and a half that exports are not improved so much as imports are reduced, contributing thereby to the impoverishment of the outer world that is to buy the exports. The foreign bond section has received many a hard blow in the last two years, but none calculated more nicely to injure it than the deterioration of the dollar.

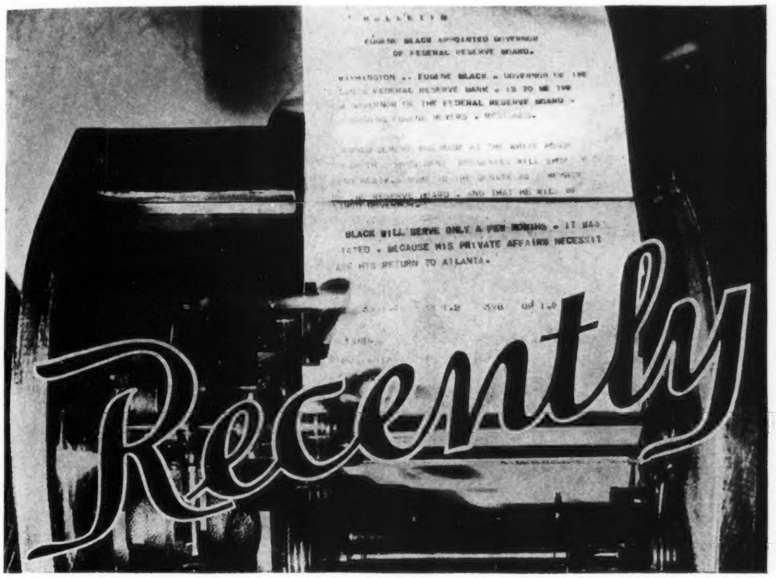
As if emphasizing the grave (CONTINUED ON PAGE 66)

THE visit of Dr. Schacht to this country was from the outset correctly regarded as bearing directly on Germany's external debt position. While the president of the Reichsbank was still in Washington conferring with President Roosevelt the German Government notified the Bank for International Settlements that it would pay interest on the Young and Dawes Plan bonds, June 1 and October 15, in paper currencies in those countries which have abandoned the gold standard. Germany has found her export markets gradually and remorselessly shrunken by tariffs and currency depreciation, and against these impediments a deflation of domestic costs has been of no avail.

When a country like Germany finds it unavoidable to default in whole or in part on some of the external debt, no further proof is required of the plight of foreign bonds. Never before in the history of foreign borrowing has a country so economically advanced as Germany found it necessary to entreat creditors for relief on private debt account.

HJALMAR SCHACHT

KEYSTONE



Gold Embargo

SINCE the administration's dramatic decision on April 19 to place an embargo on gold exports, the outstanding news has been that surrounding the gold standard, inflation and international currency stabilization.

THE GOLD CLAUSE ON NOTES

CONCERNING the use of the gold clause on notes representing new lines, the Legal Department of the American Bankers Association expressed the opinion that it is advisable for the present to avoid the insertion of this clause. In an opinion furnished to member banks it is stated that repayment of loans can be made in no other medium than credit dollars, while the United States is off the gold standard; and further, that in any event, the gold clause would be dischargeable only in legal tender dollar for dollar.

•

ANY doubt that the gold embargo was a preliminary step to an experiment in "controlled inflation" was dispelled with the introduction on April 20 of an administration-sponsored bill bestowing on the President unprecedented power to expand the country's bank credit, and, if necessary, its currency. This measure was introduced by Senator Thomas of Oklahoma, leading inflationist in the upper house and advocate of soldiers' bonus payment, as an amendment to the farm bill. Under its provisions, the President is empowered:

First, to order the sale of United States Government bonds, up to $3,000,000,000, directly to the Federal Reserve banks;

Second, to authorize the issuance of $3,000,000,000 in United States notes (greenbacks);

Third, to reduce the legal gold content of the dollar, by as much as 50 per cent.

Fourth, to accept up to $100,000,000 in silver payment on the war debts.

Senator Reed, of Pennsylvania, led the fight against the inflation bill on behalf of a small minority in the Senate, but it moved quickly through that body and was passed by a vote of 64-20 on April 28. In the minority voting against the bill was Senator Carter Glass, leading financial authority of the Democratic party and first choice of President Roosevelt as his Secretary of the Treasury. In one of the most dramatic speeches of his career, he assailed not only the inflation bill, but the gold embargo, denouncing the latter as "immoral" and "national repudiation".

The imposition of the gold embargo was the signal for a violent outburst of speculation in all markets. On April 20, more than 7,000,000 shares changed

KEYSTONE

Joseph V. McKee, considered New York City's leading candidate for the mayoralty, retired from politics to become president of the Title Guarantee and Trust Company of New York

hands on the New York Stock Exchange in the biggest day's trading since May 5, 1930. The dollar, on the same day, broke to a discount of 12 per cent in terms of gold currencies.

Suspension of gold payments brought immediate international repercussions. On April 25, Chancellor Neville Chamberlain of Great Britain presented a budget in which he asked for authority to double the size of the British exchange equalization fund.

On the same day it was announced that the French and British treasuries had reached an agreement regarding a temporary stabilization of the franc and the pound. Under this agreement the equalization fund would refrain from turning its franc credits into gold, lending them instead to the French treasury at the current interest rate.

Ogden L. Mills, former Secretary of the Treasury, speaking before the Indiana Republican Editorial Association at Indianapolis on April 28, charged that the "controlled inflation" program was unconstitutional and was likely to lead to uncontrolled inflation.

A fresh controversy was raised on May 1, when it was divulged that the Treasury would not meet its debt service abroad in gold or the equivalent of gold, despite the "gold clause".

Meanwhile, on the same date, the time limit expired for the return of gold, as ordered under the Presidential decree of April 5. Many holders decided, especially in the light of proposals to raise the dollar price of the metal, to challenge the right of the Government to take the metal.

On May 2 it was reported that Amer-

KEYSTONE

Milo Reno, of Des Moines, president of the National Farmers' Holiday Association, called a national farm strike for May 13 and later suspended the order to await Washington developments

•

ican tourists were "fleeing from the falling dollar" in Europe.

On May 3, the House followed the lead of the Senate, adopting the Thomas amendment by a vote of 307-86.

Among the problems presented by America's abandonment of gold was the status of the two American members of the International Bank. For a time it appeared as though Leon Fraser's appointment to the presidency could not, under the rule confining membership to representatives of gold standard countries, be confirmed. A legal loop-hole was discovered by the directors, however, and he was formally elected May 8.

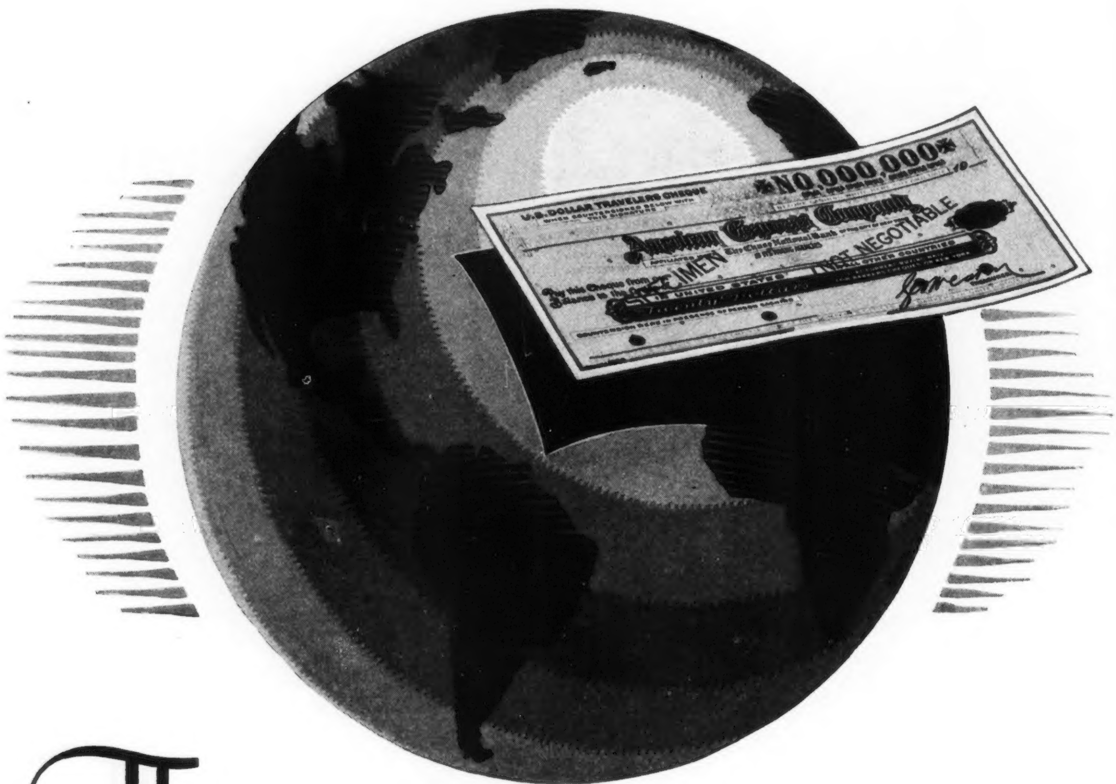
"Unshaken faith in the gold standard" was the keynote of the annual report of Gates W. McGarrah, retiring president of the Bank for International Settlements.

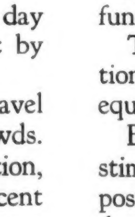
On May 12 the German government served notice on the Bank for International Settlements that it would no longer continue to meet the service charges on Dawes and Young Plan bonds held in non-gold countries in gold or the gold equivalent in exchange.

President Roosevelt on the same day signed the farm relief-inflation bill, under which he assumes the widest range of authority over the economic affairs of the country ever held by a President in peace time.

CONFERENCES

ON April 21, with the arrival of Prime Minister Ramsay MacDonald of England, President Roosevelt commenced a series of conferences in which he sought to pave the way to a solution of the prob- (CONTINUED ON PAGE 64)


U.S. DOLLAR TRAVELERS CHEQUE
NO,000,000
NOT NEGOTIABLE



AMERICAN BANKERS
Association
JOURNAL

JUNE 1933

The Future of Government Banking

By JOHN HANNA

AMERICA'S biggest banker today is the Federal Government. The United States is now operating 52 financing institutions. Forty of these are owned entirely by the Government. In twelve more the Government has already a two-thirds interest. Thirty-seven are intended to be permanent. Twenty-five of the permanent ones and 14 of the temporary ones are agricultural.

The capital stock held by the United States in these banks has a par value of $1,380,000,000. The Government's total investment is nearly $2,000,000,000. Resources of these institutions exceed $3,000,000,000. In addition the Government has detailed supervision over 51 mortgage banks, operating under Federal charter. The Government also supervises 4,600 local agricultural loan associations with Federal charters.

All this takes no account of the relations of the Government to the twelve Federal Reserve banks, nor of the authority recently given to the Reconstruction Finance Corporation to buy preferred stock in national and state commercial banks.

THE President on March 27 ordered the consolidation after 61 days of the agricultural credit agencies into the new Farm Credit Administration, under a single governor instead of a board, and with one stated subordinate, the Farm Loan Commissioner. This not only substitutes the Farm Credit Administration for the Farm Board minus the latter's power to finance stabilization corporations but eliminates the Farm Loan Board.

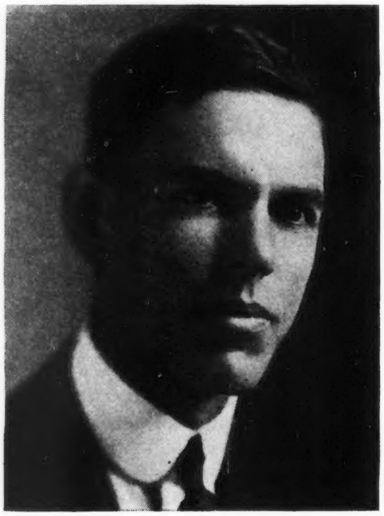
The first experiences of the United States in banking were profitable. It subscribed $2,000,000, that is, one-fifth of the stock, of the first Bank of the United States in 1791 and sold its shares after about ten years for a profit of $671,000. It subscribed $7,000,000, again one-fifth, in the stock of the second Bank of the United States, and made about a $1,000,000 profit on this, besides getting a bonus of $1,500,000 for the bank's charter.

Except for the Federal land banks in 1916, the Government's next plunge into banking was the War Finance Corporation in 1918. Again the Government was fortunate. It got back the enormous capital of $500,000,000 with a profit of $65,000,000, which approximately equaled the cost of the capital to the Government. The rest of the Government's financing agencies except the two loan businesses of the Department of Agriculture, the Crop Production Loan Office and the Seed Loan Office, included in the Farm Credit Administration, are discussed in succeeding paragraphs.

Twelve land banks were chartered in 1917 with a modest capital of $750,000 each, practically all of which was subscribed by the Government. The business of the Federal land banks is to extend long term mortgage credit to farmers upon the security of first mortgages on farm lands. Most of the loans have maturities of from 33 to 36 years, and bear interest at 5½ per cent or 6 per cent. The money for these loans is obtained primarily by the issuance of tax exempt bonds secured by farm mortgages. The bonds are not guaranteed by the Government. Every bond is ultimately the obligation of all of the 12 banks. Since organization the land banks have made over half a million loans aggregating more than $1,700,000,000. Approximately $600,000,000 in loans have been repaid.

In order to borrow from a land bank a farmer must be a stockholder in a national farm loan association. These associations must be composed of at least ten borrowers who are applying for not less than an aggregate of $20,000 in loans. Every borrower must subscribe for 5 per cent of his loan in the $5 stock of his association. Before the loan is made the national farm loan association must subscribe for 5 per cent of the loan in stock of the Federal land bank. The association indorses the obligations of all who borrow through it. The so-called double liability usually imposed on bank stockholders is also imposed on stockholders in a farm loan

The author, Mr. John Hanna, is professor of law at Columbia University. He was at one time attorney for the War Finance Corporation



association. When a loan is paid off, if none of the borrowers through the particular loan association is delinquent the stock of the borrower is retired and cancelled.

By 1932 practically all of the Government stock in the 12 land banks had been retired and the banks belonged to the farmers themselves. The depression, in the meantime, had embarrassed the land banks because of delinquencies on mortgages which threatened to leave the banks without sufficient resources to meet their bond interest. Until recently defaults affected about 5 per cent of the total amount outstanding. The Government in 1932 took an additional $125,000,000 in Federal land bank stock and now owns about two-thirds of the capital of the Federal Land Bank System.

The Administration's farm refinancing bill reduces for five years to 4½ per cent the interest rate on mortgages held by the land banks and authorizes postponement of amortization payments for five years. To save the banks from default on bonds the Government is to pay the banks $15,000,000 and also subscribe such amounts as may be needed to the surplus of the banks. The initial appropriation for the latter purpose is $50,000,000.

The land banks are also authorized to issue up to $2,000,000,000 additional in 4 per cent bonds, the interest but not the principal to be guaranteed by the Government. The new bonds may be used by the banks to buy existing first mortgages from other lending institutions and individuals, or to make loans to farmers to enable them to refinance existing first mortgage indebtedness. The mortgages taken by the land banks must be secured by land having a value of at least twice the face of the mortgage, with an additional allowance of 20 per cent of the value of permanent improvements. The appraisal is to be on a basis of "normal" value, presumably higher than recent demoralized prices of real estate, but not necessarily as high as the appraisal when the mortgages were first executed.

Many mortgagees are embarrassed by inability to realize on farm mortgages. A considerable number of them will be able to get some relief by trading their mortgages for the new land bank bonds. Whether those bonds can be sold at par depends upon various factors, including future Governmental borrowing.

THE JOINT STOCK BANKS

WHEN the Federal Farm Loan Act was passed in 1916 private mortgage bankers fearing that the Federal land banks would drive them out of existence induced Congress to provide also for the Federal incorporation of private joint stock land banks having the privilege of issuing tax exempt bonds secured by first mortgages. These joint stock land banks make loans on substantially the same basis as the Federal land banks except that loans may be made without the intervention of a farm loan association. Each joint stock land bank is responsible only for the bonds issued by it. Like the Federal land banks the joint stock land banks have been under the supervision of a bureau of the Treasury known as the Federal Farm Loan Bureau. A joint stock land bank is permitted to do business in the state in which it has its principal office and in one contiguous state. About 60 such banks were organized, of which 46 are still in operation. Five others are now being liquidated, four through receivership under the direction of the Farm Loan Board. The aggregate outstanding loans amount to approximately $450,000,000.

The Administration's refinancing bill forbids the joint stock banks to issue any new tax exempt bonds or make new loans except for refinancing purposes.

The Reconstruction Finance Corporation is authorized to lend them $100,000,000 in addition to loans previously made, on condition that each bank receiving a loan will reduce interest rates on its mortgages to 5 per cent, and permit a two-year extension on principal. The loans are limited to 60 per cent of the basic real estate security. The liquidation of the joint stock land banks will be long drawn out but where the original loans made by the banks have been conservative, the bondholders have little to fear, and in some cases there may be assets remaining for stockholders after liquidation is completed.

The Federal land banks give the farmers long term credit at reasonable interest rates. Short term agricultural credit is available through commercial banks having the privilege of rediscounting under regulations of the Federal Reserve System. The War Finance Corporation provided from 1921 to 1924 an intermediate type of credit. To make this type of credit permanent the Farm Loan Act of 1916 was amended to provide for 12 intermediate credit banks. These banks are located in the same cities as the Federal Land Banks, have the same officers and directors, and are under the supervision of the Federal Farm Loan Board. After about June 1, like the land banks, they will be under the control of the Farm Credit Administration. Each bank is capitalized at $5,000,000 and all the stock is held by the United States Government. Each bank is authorized to borrow money and to issue collateral trust indentures up to ten times its capital and surplus. Each debenture is ultimately the liability of every bank in the system but is not guaranteed by the Government.

The intermediate credit banks make loans with maturities of from six months to three years. The chief business of the intermediate credit banks has been in

In 1917, during Mr. Wilson's second administration, the 12 Federal land banks were chartered

loans and discounts for cooperative marketing associations and live stock finance companies.

The intermediate credit banks have had on the whole a successful existence. Their present aggregate resources are about $150,000,000. About $80,000,000 in debentures are outstanding. Thus far the banks have not been obliged to call for all of the Government's stock subscriptions. While some losses are inevitable due to the collapse of prices of commodities securing certain loans, these losses should not be large enough to prevent the banks from taking care of their debentures.

The Federal Farm Board was created in 1929 to fulfill the pledge of the Republican party to do something about farm relief. The Board consists of nine members who constitute not a corporation but an independent office of the Government. Congress placed at their disposal a revolving fund of $500,000,000. The Board was authorized to lend to cooperative associations for organization purposes, plant facilities, and current activities without any limitations as to security. The Board was permitted also to make loans to establish price insurance for agricultural commodities, to assist in forming clearinghouse associations to further the cooperative marketing of perishable fruits and vegetables, and to finance central marketing agencies, including stabilization corporations. In addition the Farm Board was authorized to engage in extensive research activities.

No one ever really wanted the Farm Board and its present unpopularity is due largely to this fact. The farm leaders wanted some form of a subsidy for the basic agricultural products either by an export debenture plan or some form of equalization fee. Most of the opponents of these measures would have preferred to have had no legislation at all. To prevent what it feared would be something worse, the Administration acquiesced in the creation of the Farm Board with power to finance stabilization corporations. The Board began its operations in 1929 and would have had a sufficiently trying experience if the depression had not begun in an acute form after the stock market collapse of October, 1929. Its personnel has been capable.

After the event one sees ways of losing money at less administrative cost, but no group given a mandate to exercise the same powers could have done much better under similar circumstances.

The Farm Board's first activities consisted of making loans to cooperative associations above the 75 per cent of the commodity security which cooperatives are allowed to borrow from the intermediate credit banks. The Board also created and financed a new system for cooperative marketing of live stock. When commodities started to decline sharply in 1929 and 1930 the Board responded to pressure from the wheat and cotton interests by setting up a grain and a cotton stabilization corporation. These stabilization corporations were permitted to buy and sell wheat and cotton respectively in an effort to maintain the price. While these efforts may have been to a certain extent successful for a few months, the temporary enhancement of price merely stimulated production in the subsequent year. The ultimate decline in both wheat and cotton caused losses of about $360,000,000 to the Board. The (CONTINUED ON PAGE 47)

Jesse Jones, the present chairman of the Reconstruction Finance Corporation

1. Frozen loans
2. Owned insufficient quantity of securities.
3. Incompetent management
4. Decline in value of farm products
5. Depreciation of securities
6. Dishonesty
7. Owned no securities
8. Depreciation in real estate values
9. Withdrawals
10. Lack of earnings
11. Loans to officers and directors
12. Excess investment in building
13. Depreciation of collateral
14. Lack of credit data
15. Activities of individuals connected with the bank, detrimental to good will.
16. Excessive competition
17. Conditions arising chiefly from the depression
18. Consolidation
19. Rumors
20. Closing of neighboring banks
21. Loans to affiliated companies
22. Publication of statement showing borrowed money and real estate
23. Managed by persons with political connection
24. Voluntary suspension

Closed Banks— A Study of Causes

By JOHN J. DRISCOLL

John J. Driscoll prepared for the JOURNAL this epochal study from first hand, authentic data furnished to Thomas B. Paton, Assistant General Counsel, American Bankers Association, by the Government officials in charge of liquidation. Mr. Driscoll is a member of Driscoll, Millet & Company, Philadelphia, bank analysts.

It will be impossible to supply extra copies of this issue, unless the request reaches the JOURNAL before June 20.

AN EXAMINATION of the records of closed banks shows that the relative importance of various causes of failure is approximately in the order indicated at the left.

Only rarely was the failure of a particular bank the result of one factor. Usually three or four different causes combined to bring about suspension.

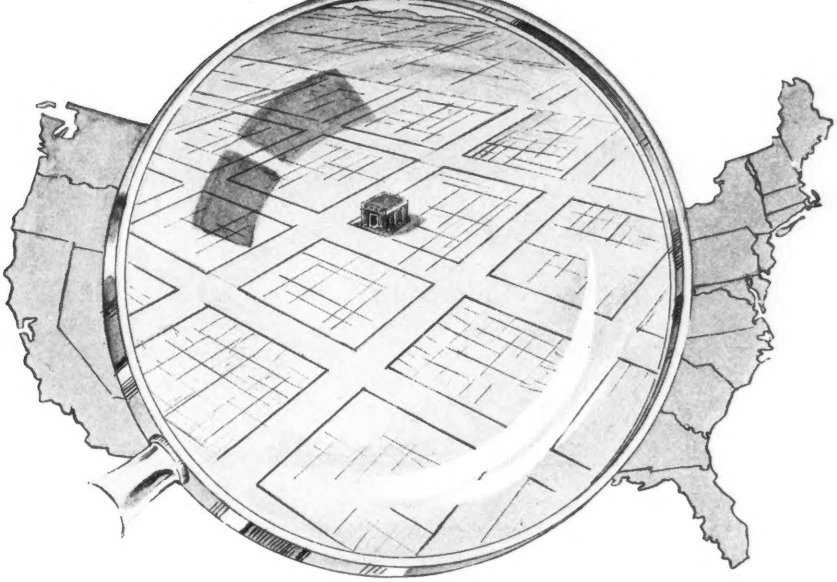
The greatest number of closings is traceable to loan losses arising from the fact that the bank did not insist on liquidation until it was too late, or concentrated its loans in a few lines or suffered a severe depreciation of collateral values. Incompetent management was, of course, a factor of great importance in most failures entering into this analysis.

Contrary to a widely accepted belief, security depreciation was not the cause of most failures. In a majority of cases few or no securities were owned and this, in itself, was cited as a cause of suspension.

Failure to maintain a reasonable degree of liquidity was present in a great majority of instances. Liquidated dividends paid to February, 1933, averaged 40.1 per cent.

The banks included in this study were located in farm, industrial and resort communities and, in a few instances, in medium sized cities.

The range of population was from towns of 1,000 to cities of 50,000 or over. More than half the banks in this analysis were in towns of 5,000 or less.



Loans and Investments

GENERALLY it may be said that failures have been caused by shrinkage in the value of assets, mainly loans, rather than in shrinkage of deposits. It was only when fictitious book values of loans represented remaining deposits that the seriousness of the condition was fully realized.

All banks whose pre-failure records form the basis for this study closed prior to the publication of loans by Reconstruction Finance Corporation. The effect, therefore, of this publicity is not reflected, although a study at a later date would undoubtedly show this factor to be of more than passing importance. Many banks reached the conclusion that borrowing from this source was equivalent to suspension.

Thirteen of the banks included had resources of less than $500,000 and many of these lacked sufficient net earnings to provide necessary reserves to care for losses. The largest bank included had resources in excess of $60,000,000.

Two fundamental bases of bank operation are permissible to the management of a bank:

1. Determine what rates of interest are to be paid on deposits, what costs are to be incurred and what services are to be rendered. Then, invest funds in a manner that will produce sufficient income to pay all these costs and still permit to the bank a margin of profit.

2. Determine what is a safe and sound investment and loan policy with the volume of funds available. And then determine what income will be received from funds so invested. With income determined, the next decision is what rates of interest may safely be paid on deposits, what expenses may be incurred and what services may properly be rendered without charge and with charge, so that a reasonable margin of profit may be maintained.

The first plan contains many inherent weaknesses and usually results in substantial capital losses and frozen assets. Nevertheless, this was the plan followed in a substantial degree by practically all the banks included in this study. It unquestionably gave a more rapid growth in resources, but the funds received were invested in the same manner as those previously held and merely aggravated the bank's position when liquidation became necessary.

Throughout the study of these closed banks, the effect of capital loans, improperly secured loans, loans influenced by those closely associated with the bank are ever in evidence. Losses arising from uncollectable loans, combined with the inability to realize to any substantial extent on loans that were unsound at their inception or permitted to become so, constitute the outstanding factor indicating inevitable failure.

In fairness, it must be said that some small banks located in agricultural communities saw good loans change to weak loans and then to losses as crop failures and decline in agricultural prices multiplied, with very little opportunity offered to protect advances to their farm borrowers.

Loans secured by real estate, which became slow and later occasioned more or less loss, appear occasionally, but assume serious proportions in communities affected by the real estate boom of Florida and similarly affected sections of the country.

Loans secured by local collateral, with little or no market, appear frequently. Usually, the bank first loaned money to the business itself and then to the owners of the business against their stock ownership. The bank then became not only a substantial creditor of the business, but eventually the owner of it. Loans of this type usually remain on a bank's record for an indefinite period of time and have been aptly termed "life interest notes."

Loans to officers, directors and affiliated companies appear as a cause of failure. A bank that feels its funds are primarily available for the benefit of a chosen few invariably is faced with serious trouble. Loans of this type should be of a sounder grade than average, and, generally, loans to officers and directors should be amply secured by sound collateral.

The tendency to carry loans that have become weak, in the hope that eventual-

ly they will again become sound, frequently resulted in the postponement of loss taking until the accumulated total became so large that write-downs, when no longer avoidable, impaired capital. The failure to distinguish between the willingness of a borrower to pay and his ability to do so contributed largely to this condition. Failure to take care of losses as they occur means that accumulated sums must be taken at times of pressure when a bank is least able to stand them. If taken as they occur, the management of a bank is stirred to the necessity of action to minimize such occurrences and is not lulled into a sense of false security.

The failure to maintain any reasonable relation between the amount invested in loans and the amounts and types of deposits existing or the fluctuation of these deposits is apparent throughout the great majority of these banks. Loans increased as rapidly as deposits increased, regardless of whether these deposits were commercial or savings and regardless of whether they were permanent or merely temporary deposits. This resulted in a frozen condition when deposits started to decline. Reasonable liquidity was not considered necessary until too late when impossible to be acquired.

When times were good and deposits were expanding, many of these banks did not insist on periodic liquidation of loans, and after things had tightened up, discovered that liquidation of previously good loans was impossible. If a customer is not asked to liquidate when he can, it is hard to make him appreciate the necessity of doing so when it is decidedly inconvenient. This is particularly true of demand loans, which are frequently placed on the books and then forgotten. It is an established fact that loans when made should provide a definite plan of repayment that can be met. If this condition cannot be met a frozen credit will invariably result.

If the stories of the banks included in this study are accepted as typical, then the factor of security depreciation does not appear to be as important as discussions of the past year would have led us to believe.

In about 20 per cent of the banks, security depreciation was a factor contributing to failure, but in no case was it the only factor. While in about 10 per cent of the cases, no securities were owned and in 20 per cent the amounts held were very small when compared with the size of the bank.

Too frequently, the few high grade securities carried, being largely Governments and issues of political sub-divisions, did not provide any secondary reserve because they were pledged to secure public deposits. It is a fair question therefore to ask whether these securities would have been carried at all if they had not been necessary to secure this type of deposit.

In many instances securities were purchased, not after a detailed study of their fitness for a given bank or after giving consideration to diversification, rating, maturity and other factors, but largely because of their trading possibilities; and the desire to make profits in this manner to offset high interest rates and inefficiencies in operations was also apparent in some of the cases.

Fear of taking an original loss in securities that became weak and the holding of such securities in the face of further unfavorable factors, with the hope that ultimately they would recover, was occasionally apparent in these banks, while a few carried collateral loans without reduction in spite of sinking prices in the securities markets.

Harmful competition adds importance to the desirability of forming regional clearinghouse associations and the adoption by them of sound policies and practices to be applied by all of its member banks. In cooperative action for the elimination of unsound competitive practices and the dissemination of knowledge and experience lies the constructive step still open to many banks

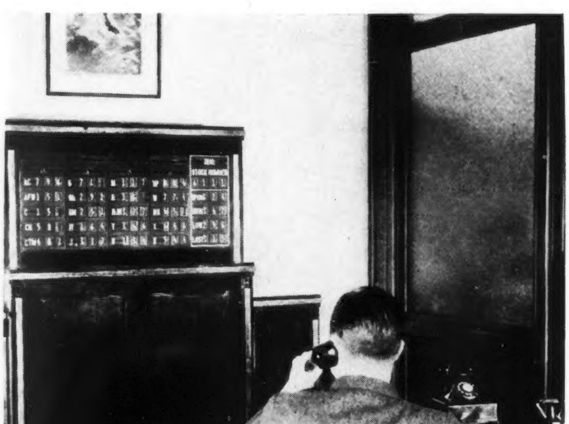
• •

The public is paying more and more attention to the published statements of banks, but usually confines its analysis of a statement to the amount of cash, due from banks, and Government securities shown and the amount of other real estate carried and money borrowed

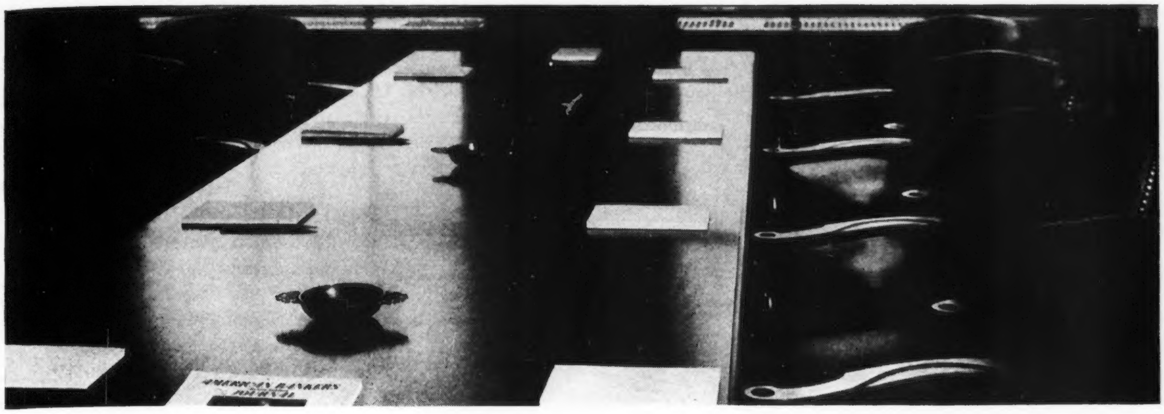
---

•

Collateral loans carried without reduction in the face of rapidly declining security markets with the hope of eventual upswing in prices and values again making these loans properly secured appear frequently and contribute to the weakened loan situation. In only a few instances, however, was this factor serious.—The Author



COURTESY TELEREGISTER CORP.



Director Responsibility, Management and Contributing Factors

AFTER loans and investments the factor most frequently cited by receivers as an important cause of failure was the quality of management. In many cases the former officials were referred to as incompetent, weak, yielding and lacking in courage.

It is a fair statement to say that 85 per cent of the success of any bank is traceable to its management and not to its size or location. The unhealthy loan and security situation already discussed, and other pertinent points that have influenced these banks largely reflect the viewpoint, ability and foresight of the management.

By the same reasoning, of course, it must be remembered that the opinion of the receivers is usually a personal opinion and the receiver has the benefit of hindsight.

In some instances the size of the bank would hardly permit the hiring of capable management because of the lack of earnings to pay required salaries. However, in many of these cases high rates of interest were paid on deposits. It would have been sounder to curtail interest rates and apply a portion of the sum saved to obtain more capable officers.

Occasionally, the dominance of one man who spent only part of his time in the bank was the chief factor of weakness. His conclusions and policies forced on the bank, were influenced by politics, and by the possible effect on other business with which he was associated, etc.

Lack of proper supervision by directors occasionally appears as a reason for failure. Directors frequently do not realize that the responsibility for running a bank is theirs whether they actively accept it or not. Too frequently, directors accept their nomination as an honor with very little thought of its accompanying responsibilities. If they do not feel they have sufficient knowledge or ability to determine whether or not a bank is being properly managed then it is incumbent on them to secure outside disinterested advice.

Leaving all decisions to one man or a small clique often resulted in their judgment becoming warped and opinions set. As the responsibility finally rests with the directors, they should insist on the right of expressing their own opinions and viewpoints on decisions, thus giving the benefit of many approaches to these problems and making their solution the concern of all rather than a few.

Lack of definite policies and goals to be attained was very prevalent. Preconceived policies for making loans and investments, and for their liquidation were missing. Predetermined standards of earnings to be attained were rarely asked of the management. If these things are not worked out in advance then the final result is placed in the hands of luck with everyone hoping for the best.

Dictation of policies by the public, because of fear to take a stand, weakened many of these banks. It was considered necessary to do what depositors insisted upon rather than to insist that the depositor do what sound banking dictated.

Competition between banks, unhealthy enmity between banks in the same locality and a desire to do the same as other banks or even to go them one better, helped to weaken many banks and in a few instances actually brought about their failure.

Unsound competitive practices rarely were entered into after due consideration of their desirability, soundness or effect on the bank, but usually were motivated by fear that a competitor might gain some business or that the adoption of a plan might permit the immediate securing of an advantage by the bank employing it.

Interest paid to secure deposits constitutes a bonus paid for these deposits. When this rate is so high as to constitute an unsound bonus, serious trouble will most surely follow. There are instances of banks included in this study where rates of 5 per cent were paid for savings deposits and as high as 4 per cent for certain commercial demand deposits. It must be realized that the rate of interest paid on deposits should be so fixed that it leaves a fair margin of net profit on deposits sufficient to care for losses that will occur from the investment of these funds. Over and above this there must be a return to the bank for the risk it takes and the service it renders. (CONTINUED ON PAGE 50)

A World Reserve System

An Economic Conference Must Find Some Way To Determine the Status of Gold

TWO years ago, when Mr. Montagu Norman, governor of the Bank of England, advanced a proposal for the establishment of a world or international bank for the financing of nations embarrassed by the deepening depression, the idea was considered impracticable if not fantastic. Several months later, when a similar proposal was made by M. Emile Francqui, Minister of Finance in Belgium, the idea was given a little more extended consideration apparently in appreciation of the growth of sentiment in its favor. International financial commissions since that time have leaned more and more toward the idea.

The commission that considered the agenda of the coming economic conference favored some such plan in its recommendation for the strengthening and greater use of the Bank for International Settlements in international credit distribution. It remained for the Presidential conferences in Washington during the past few weeks to bring the proposition forward not only as a practical matter but indeed as an inevitable consequence of current international conditions and the remedies proposed for their alleviation. The prospect is that in the near future the currency system of the United States will be linked to those of other countries through an international organization in the nature of a bank.

". . . high tariffs, quotas and other restrictions . . . have all but strangled international commerce in the last three years"

GALLOWAY

AS STATED IN WASHINGTON

THE reasoning in support of the proposition is simple and direct. As indicated in the joint statement of President Roosevelt and Premier MacDonald and confirmed in subsequent joint statements following the conferences preliminary to the London meeting: "The necessity for an increase in the general level of commodity prices was recognized as primary and fundamental. To this end simultaneous action needs to be taken both in the economic and monetary field. . . . Central banks should by concerted action provide an adequate expansion of credit and every means should be used to get the credit thus created into circulation. . . . Governments can contribute by the development of appropriate programs of capital expenditure. The ultimate reestablishment of equilibrium in the international exchanges should also be contemplated. We must, when circumstances permit, reestablish an international monetary standard which will operate successfully without depressing prices and avoid the repetition of the mistakes which have produced such disastrous results in the past."

Practical experience as well as theory, however, have demonstrated several inescapable facts. One is that the general price level cannot be raised in one country alone or even in several countries; it must be raised in all countries at once, since otherwise the international flow of goods vitiates the

By

GEORGE E. ANDERSON

operation or leads to high tariffs, quotas and other restrictions on trade which have all but strangled international commerce in the past three years. The price level also cannot be lifted without some sort of stabilization of international exchange, and international exchange cannot be stabilized under present conditions without a renewal of the unrestricted international flow of funds and the granting of necessary international credits.

GOLD, LONDON AND BASLE

THE present world credit system or lack of system has completely broken down, whether that breakdown is the result of the failure of the gold standard as an international measure of values or otherwise. The restoration of international credit and the stabilization of international exchange are the first requisites for world business recovery. Neither of these primary and fundamental conditions can be met by private initiative or by governments acting individually. There must be some central authority or machinery which can gather together the available funds of creditor nations and distribute them under proper safeguards among debtor nations. Such are the functions of a bank. Since these matters are international matters and the field of operation is international the bank must be international.

In current discussions here and abroad the world bank idea is assuming two forms. One is the pooling of at least a portion of world gold stocks as the basis for international credit much as the gold stock and credit based upon it is pooled in the Federal Reserve banks of the United States. The agenda commission of the Economic Conference, for example, favored the reduction of the gold reserve support for various national currencies with the idea of depositing the unnecessary and excess gold supply in the Bank for International Settlements as the basis of credit advances to nations lacking adequate gold supplies.

Both the Norman and Francqui plans contemplated contributions of gold in the way of capital and deposits from creditor nations in the formation of their proposed banks—the former for long term loans, the latter for intermediate term loans later to be merged into funded debts as world markets could absorb the securities. All these plans, in short, contemplate the formation of an international bank with capital and deposits on ordinary, accepted, banking principles.

A second principle contemplates merely the use of creditor nation credit as the basis for the international machinery. It is best represented by the plan of Mr. J. M. Keynes, the British economist. The Keynes plan proposes to base this international credit distribution on an international credit system represented by an international currency issue. The British economist proposes that a world authority be set up for the issue of gold notes whose value would be expressed in terms of the American dollar, this proposition having been made in Congress before the attack on the dollar.

These notes would be issued up to a possible limit of $5,000,000,000 and would be obtainable by the participating countries against an equal face value of the gold bonds of their governments up to a maximum of the quota for each country. This quota would be established on the basis of an agreed formula, such as the amount of gold they held at some recent date, 1928 being the date suggested, but not to exceed a fixed amount in the case of each country. The maximum limit would be fixed on the basis of the population, resources, trade and other economic considerations of the country concerned and, according to the schedule suggested, would vary from $450,000,000 for the (CONTINUED ON PAGE 38)

From the agenda of the coming Monetary and Economic Conference, as submitted by the Preparatory Commission of Experts:

"Among the suggestions brought to the Committee's notice is the establishment of a Monetary Normalization Fund, which was contemplated at the Stresa Conference.

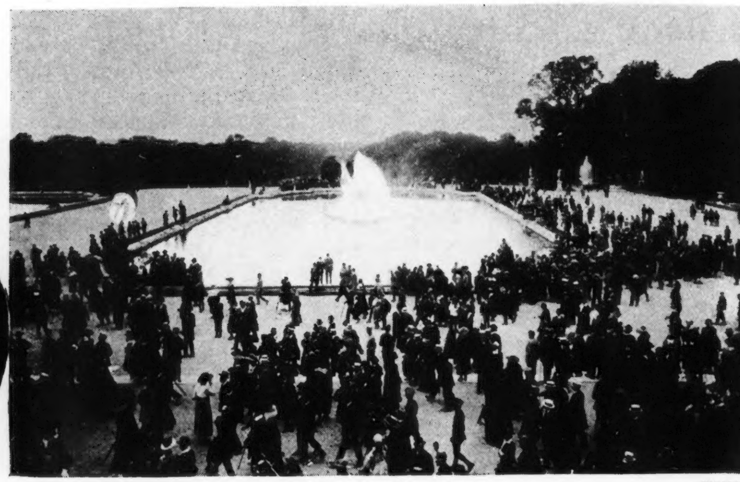
* * *

"In view of the fact that the object of the establishment of such a fund is to facilitate monetary normalization, the Bank for International Settlements would appear to be the most appropriate body to administer this fund, since it is desirable to avoid any political influence in its administration.

"This idea of special assistance proving necessary to restart the financial machine, which has been at a standstill for so long, has been further developed in the course of our deliberations. The suggestion has been made that help might be given by means of the establishment of an International Credit Institute, which would derive its funds either from the banks of issue or from private sources, the support of the governments being provided in both cases, as would also be necessary in the case of the Monetary Normalization Fund.

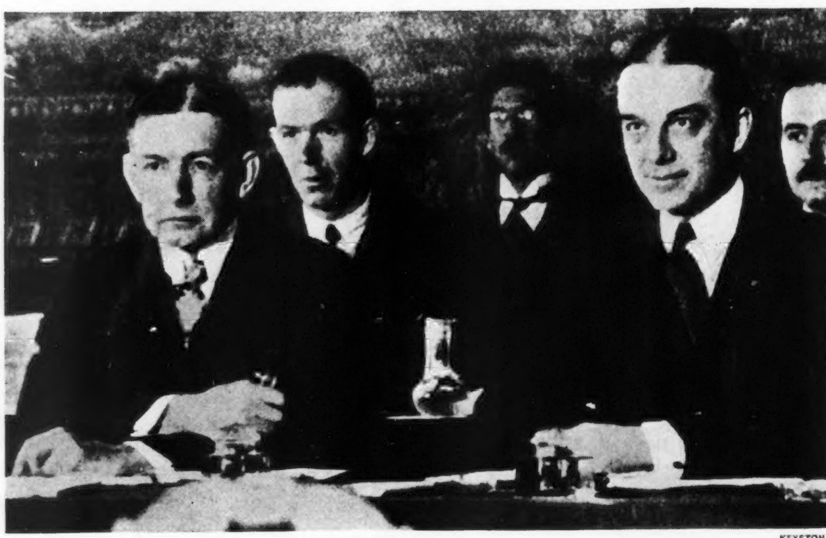
"Obviously, an institution of this kind—the object of which would be to set in motion capital which is at present lying idle—should grant new credits only under sound conditions and subject to strict supervision with a view to preventing any inflation. It should not refund the old credits ("frozen" credits) referred to above. It is also obvious that this institute should be free from any political influence, and it might be affiliated to or administered by the Bank for International Settlements. If this idea meets with the approval of the governments, we suggest that the question should be gone into more fully."

Cycle



KEYSTONE

1919. Versailles. Crowds celebrate the signing of the treaty which ended the War



KEYSTONE

1923-27. Europe finds American assistance in handling the reparations problem. The Dawes and Young Plans were the result

KEYSTONE

1933. Berlin. Under the Hitler dictatorship the younger generation in Germany revolts against the peace conditions

KEYSTONE

June. London. George V will open the International Conference which will seek to restore economic world peace

London—

via Brussels, Genoa, Geneva and Other Points On the Way Back from the War

By EDWARD H. COLLINS

Mr. Collins is financial news editor of the New York *Herald Tribune*

THE World Economic Conference, at which representatives of more than 60 nations will foregather in London on June 12, will represent the fifth concerted effort of its kind to correct the economic and financial maladjustments growing out of the World War and to restore something like permanent order in international trade and finance.

The forthcoming assembly resembles closely in the scope of its agenda the conferences convoked by the League of Nations in Brussels and in Genoa in 1920 and 1922, respectively. On these occasions, as on the present one, the principal problems on which action was sought were those of an international trade collapse and fluctuations in world currencies, virtually all of which were off gold. These conferences served to focus world attention on the nature of the difficulties which were strangulating commerce and trade, but were virtually barren of tangible results. Whether the world was then in a mood to take to heart the lessons pointed out to it at Brussels and Genoa is at least an open question; but one vital consideration in the failure of these assemblies to accomplish more than they did was the fact that they specifically exempted from the field of discussion the questions of reparations and war debts, two questions whose solution was, of course, of paramount importance.

In 1925 the League again convoked a world assembly to take up matters of international economic interest, and this meeting convened at Geneva in the spring of 1927. Its final report embraced many sound proposals, but the document has to date been of little importance except from an academic and historical standpoint. Three years later representatives of the nations of the world again met at the behest of the League in an effort to call a truce in the unremitting competition in tariffs, but this meeting brought no more positive results than had its predecessors.

Riding the Waves

SAN FRANCISCO CHRONICLE

Undoubtedly, the chief reason for the failure of the 1927 conference was the fact that international trade began to improve shortly thereafter, not as a result—as is now abundantly clear—of a correction of the fundamental defects in the system, but as a result of the pumping of a vast amount of credit from the creditor nations, such as the United States, Great Britain and France, into the debtor nations. These huge loans, so long as they lasted, tended to rectify the unbalance of payments among the nations, and to stimulate sharply international trade and exchange. Furthermore, many of them were employed for purposes of currency stabilization, and this contributed another important factor to the other elements in creating this spectacular, but necessarily brief, period of international prosperity.

By 1930, when the next economic conference was held in Geneva, the peak of the boom had been passed and the world had already begun to feel the pinch of credit contraction that inevitably follows such a crash. However, it was not until the following year that the financial collapse occurred in Europe, bringing home to the world the belated realization that for half a decade it had been living in a false paradise.

That collapse set in motion the series of events which are culminating, a fortnight hence in the London Conference. The first of these events was the Hoover moratorium, involving the suspension in intergovernmental debt payments for a year, and announced on June 20, 1931. This was followed, in turn, by the creation of the Wiggin Committee headed by Albert H. Wiggin, which arranged for the "freezing" of the German short-term external debt, and the so-called "Basle Committee" of experts, headed by (CONTINUED ON PAGE 57)

GLOBE

James Francis T. O'Connor, of Los Angeles, who has been named Comptroller of the Currency

•

The Glass and Steagall Bills

A Comparison between Certain Provisions of Each Measure As Proposed in Congress

THE history of the Glass bill to amend the banking laws of the United States is a history of developing legislative thought on American banking. As finally presented to the special session of Congress the measure sponsored by the Virginia Senator is vastly different from that presented to the 72nd Congress 18 months or so ago both in actual provisions and in the banking philosophy back of it.

The central idea of the original measure was the curbing of the use of Federal Reserve credit for purposes of speculation. That idea is still in the revised measure but the Senator is somewhat less concerned about it. Credit control has been rather subordinated to provisions looking to safer banking.

The most striking feature of the revised measure is the provision for the insurance or guaranty of bank deposits which supplants the provision in the original measure for the prompt liquidation of closed banks. The underlying principle of the latter was relief for depositors of banks in a process of bank liquidation which was expected to continue more or less indefinitely though perhaps at a slower rate. The principle underlying the former is that of prevention of bank failures. The closing of banks in a doubtful position by Presidential decree and the consequent elimination of banks which were expected to fail doubtless afford some explanation for the change. Nevertheless the change is significant.

The Steagall bill is a frank effort on the part of the chairman of the House Committee on Banking and Currency to meet the Senate Committee something like half way. It accepts the idea of the control of the use of Federal Reserve credit, recites some of the safety provisions of the Glass bill but differs from it with respect to the bank deposit guaranty system both in method of support for the latter and especially in its application to non-member state banks.

The primary difference between the two bills with respect to the deposit guaranty system is that the Glass bill makes the system applicable only to member banks in the Federal Reserve System while the Steagall bill provides for the inclusion of non-member state banks.

Senator Glass' Opinion

The New York *Times* of June 30, 1932, quotes Senator Glass, speaking before the last Democratic National Convention, as follows:

"A guarantee plank in our platform would create anxiety, would cause disturbance within our ranks and would raise up opposition to our party in November which I regard as entirely unnecessary. The guarantee of bank deposits has been tried in a number of states and resulted invariably in confusion and disaster to the financial structure of those states and if our party when returned to power should incorporate such a scheme in the Federal organization we would drive the strongest member banks from the Federal Reserve System. These strong banks should not be assessed to pay a premium for mismanagement."

Provisions in the Glass bill looking toward safer banking—echoed in the Steagall bill in so far as the latter goes into the matter—tend less to detailed restrictions and more to broader principles than in the original Glass measure. All state member banks must comply with rules governing national banks in capital and surplus requirements, and capital for new national banks must be at least $50,000 for places under 6,000 population, $100,000 for places between 6,000 and 50,000 population, and $200,000 for places of larger population, exceptions being made for suburban banks.

National banks would be allowed to charge interest on loans at the rate allowed under state law, or at 1 per cent above the rediscount rate of the Reserve bank of the district on 90-day commercial paper, whichever is the higher, but no more. If no rate is fixed by the state the rate charged may be 7 per cent, or 1 per cent above the rediscount rate, whichever is the higher. On the other hand, no interest may be paid by a member bank on deposits payable unconditionally upon demand, and the Federal Reserve Board is to regulate rates of interest paid on time deposits. The Steagall bill would prohibit payment of interest on demand deposits and limits interest on time deposits to 3 per cent.

Safety also would be secured by stricter control of bank management and the relations of bank officers to the institution they control. Chief among the provisions in this line is the power that would be given the Federal Reserve Board to remove officers or directors of member banks for violations of law or persistence in unsound banking practices. The bill requires that after one

KEYSTONE

Right, Mr. Glass. Left, Mr. Steagall. Below, at the left, Senator Fletcher, Chairman of the Banking and Currency Committee, and Senator McNary, minority floor leader

KEYSTONE

KEYSTONE

year each director or member of the governing body of a member bank must have at least $2,000 invested in the stock of the institution. No officer of a member bank may borrow from his own bank and he must report to his own board of directors any loan he may obtain from other banks and the purposes for which it is obtained. The Steagall bill goes further in this line and makes the restrictions apply to members of the families of such officers.

The provisions of the Glass bill with respect to the use of Federal Reserve credit in stock market speculations are less drastic than in the original bill, though perhaps quite as effective if effective at all. Under the original bill Federal Reserve credit was to be afforded only for "commerce, industry and agriculture," and elaborate restrictions upon the loans of member banks on security collateral were provided. Under the present bill as proposed, it is provided that upon affirmative vote of not less than six of its members the Reserve Board shall have power to fix from time to time for each Federal Reserve district the percentage of individual bank capital and surplus which may be represented by loans secured by stock and bond collateral by member banks within the district, limiting any such loan to any person to 10 per cent of the capital and surplus of the bank. The Board shall have power to direct any member bank to refrain from further increase of its security loans for any period up to one year. Member banks also are prohibited from acting as agents for non-banking concerns in making loans on stock market securities.

It is also proposed to force investment bankers to make a choice between the investment or the banking business. After two years no person or concern whose principal business is dealing in securities can also engage in the business of receiving deposits subject to check or other form of withdrawal; nor can any such person or organization engage in the business of accepting deposits subject to withdrawal unless it submits to periodic examination by the Comptroller of the Currency or the Federal Reserve bank of the district.

As proposed, branch banking is to be allowed in states which expressly authorize state banks to engage in it and to the same extent, but only banks with capital of $500,000 can engage in branch banking outside of home towns except that, in states with less than 1,000,000 population with no cities with population exceeding 100,000, the capital shall not be less than $250,000. Chain and group banking are to be brought into some degree of Federal control by requiring the Comptroller to examine all affiliates of national banks—holding companies as well as subsidiaries—in connection with the examination of the banks themselves, and by requiring member banks in the Reserve System to furnish the Federal Reserve authorities not less than three reports each year covering the business of each affiliate not a member of the Reserve. In connection with the examination of state member banks, examiners selected or approved by the Federal Reserve Board shall also make such examinations of the affiliates as may be necessary to determine the effect of the affiliated relations upon the member bank.

One other provision is of special interest in connection with the increasing use of the postal savings banks as commercial banks. The bill would require that no deposit in the postal savings system would be for less than 60 days and no depositor would be allowed to withdraw funds at a time prior to 60 days after the funds were deposited, while a failure to withdraw at the end of 60 days would be regarded as a redeposit. Funds on deposit when the act would take effect would be regarded as 60 day deposits. The practical effect of this provision would be to stop the running accounts maintained by many postal savings depositors, especially in the central and western states, in lieu of accounts in commercial banks.

Proposed changes in the Federal Reserve organization have been minimized. The Secretary of the Treasury is to remain an ex-officio member of the Board, but more restrictions are placed about future connections of the Secretary and the Comptroller of the Currency and to some extent other members of the Board after severing their connection with the Federal Reserve System.

Industry

Self-Regulation

•

Federal Control

GLOBE

Senator Robert F. Wagner, New York, member of an unofficial committee representing Congressional and administration views, aided in drafting the plans for "Government partnership"

EVEN as late as six months ago the conservative business men of the country would have been shocked by the proposal that the executive power in Washington should be given authority to control the industrial output, hours of labor, wages, and the price at which the output of the country's factories should be sold. Today not only is such a proposition offered, but it is rapidly being translated into the laws of the United States. The 30-hour work week bill may or may not be passed by Congress at the special session but it has too much strong support to be disposed of readily and will have its day in court later if not now. Whether it is passed in the immediate future or not, the significant fact is that with its attendant minimum wage scale and price fixing features, it stands as an alternative to similar reform on the part of industry itself. There is not the least doubt in the world that unless industrial corporations take action along the line indicated, the Government in Washington will take it; and what may now be done as individualistic industrial management's voluntary adjustment to new conditions will become the definite action of an increasingly socialistic state.

The encouraging features of the situation are that the Government still shows a disposition, almost an anxiety, to leave such matters to private action if this can be had while industrial leaders show an increasing appreciation of their responsibilities and opportunities for service. Under the easing of the anti-trust, anti-monopoly acts, there is no reason why each industry—by combination or cooperation within its own organization under Government supervision and control, such as that of the proposed industrial supervisory board—should not coordinate production and consumption of its goods, eliminate destructive competition and establish the wages of its own workers upon a fair scale. In the same way there is no adequate reason why each industry should not be able to curb or control the trade practices in its own line which prey upon it and react upon its employees and eventually upon business generally.

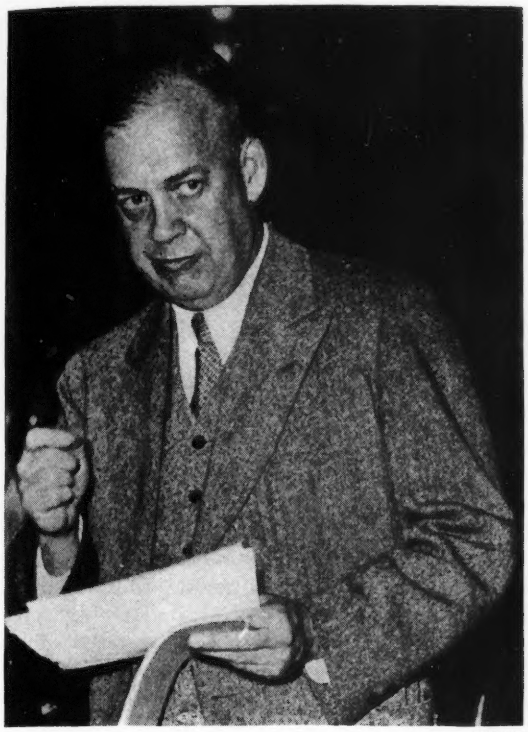
THE ALTERNATIVES

THE fact also must be faced that industry is being called upon to show more initiative in starting the wheels of American factories than it has so far shown in the current depression. The plan of the Government is to give business a start by its great expenditures upon a public works program which will provide employment for a large number of people, and thus to stimulate buying. It is expected that the factories of the country will then reopen their gates, employ more people in the manufacture of consumer goods, enable more people to buy consumer goods, and thus start all business back to normal. To encourage the latter phase of this program the Government proposes not only to make industrial credits easy through the usual channels, but also to lend money to industry through the Reconstruction Finance Corporation upon terms which will require in return a definite degree of activity of manufacture and of employment of labor. Such is the plan of the Government, but it is plain that industry must do its part.

•

There is a possible threat, too, as an alternative to industry's unwillingness to fall in with the Government's plans. A school of political and economic thought is giving much consideration these days to the immense capital reserves of large industrial corporations. These reserves run into many hundreds of millions of dollars.

It may be recalled, too, that at the height of the stock market boom in 1928-29 they constituted an extra-banking fund from which loans were freely made to boost stocks in spite of the belated efforts of banks and the Federal Reserve to control the situation. Now, politicians and economists are inquiring as to whence these reserves came and for what they are being used. They are disposed to believe that reserves exist for use in emergency; they think that the labor which cooperated with capital in the creation of these reserves has a certain moral right to have them used to continue employment in times of unemployment, a sort of postponed or diverted unemployment insurance fund. They feel that, in the interests of industry itself, these reserves should have been paid out long ago in the continued



Joseph B. Eastman, member of the Interstate Commerce Commission since 1917, who has been closely identified with the Administration's plan for co-ordinating the railroads

There is the universal feeling that business, any business, can best be regulated by those engaged in it. And there is soundness in this idea, but the industrialist and the business man must set about doing the regulating at once. Otherwise it will soon be done for them

operation of factories manufacturing consumer goods for sale at whatever price was obtainable to maintain employment and to keep business going.

There is little doubt that future industrial management will turn much of industry's capital reserves into unemployment insurance funds, or the turning will be done for it. Whether or not labor will receive directly in the future a greater share of the joint earnings of labor and capital, it is quite certain that its indirect share will be greater—unemployment insurance, old age benefits, medical and other services. The trend was in that direction before the depression, now such things are inevitable.

It requires little familiarity with thought in the industrial and business world generally to realize that both groups are willing to accept new rules. Perhaps this willingness is based primarily upon the fact that several years of continued losses, the vast shrinkage of capital and property values, and the appalling social results of the collapse have brought home to all business men a realization that readjustment is necessary in their own interest as well as in the interest of society. It would be an unfair indictment of American business, however, not to realize that much of this willingness for a change is based upon a growing appreciation of the responsibilities of business toward the general public.

Big business long ago broke up the ancient paternalistic or community-of-interest attitude of local industries toward the communities they served, but events of the past three years have demonstrated that this attitude must be resumed on a scale commensurate with its size and toward the country and even the whole world if it is to survive, much less prosper. There is both philanthropy and good business in this increased appreciation of responsibility toward employees and society as a whole.

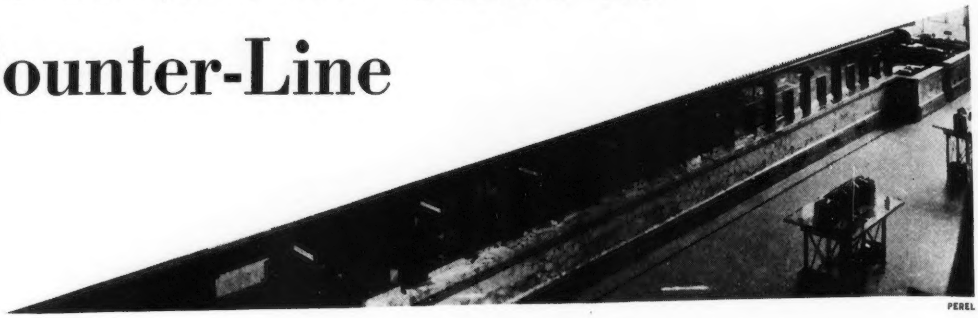
Recognizing that adjustment to new conditions is necessary, American business instinctively recoils from Government control. It objects to it as an interference with individual rights. It objects to the rigidity and inefficiency usually implied, to the bureaucracy which invariably accompanies it, to the freezing of initiative in which it usually ends.

With individual industries properly organized, an approach could be made toward a voluntary, nationwide economic council, which would be the alternative to otherwise inevitable Government regulation and control.

Since this article was written President Roosevelt introduced his national industrial bill and invited General Hugh S. Johnson to act as administrator

Right, is a photograph of General Johnson in 1918, when he was a colonel in the army and a member of the war industries board

Public Relations Start at the Counter-Line



PEREL

By

BRET W. EDDY

Mr. Eddy, assistant cashier of the Calcasieu National Bank, Lake Charles, Louisiana, says: "The head of a large southern concern remarked in response to an inquiry, 'Our telephone girl's attitude is sincere. She just really likes people. She has cultivated a manner of answering calls. We think we have an office with the best "telephone voice" in the city. This girl is worth her weight in gold.' The point we are trying to make here is that even the telephone voice is a good-will builder through simple, homely methods applied through monotonous days and months."

WHY seek new ways to create public confidence in banks? The word "new" undoubtedly leads us to the abused idea that every method used in this ultra-modern age must be accompanied by a thrill which will "make 'em sit up and take notice"; that there must be color and class and method comparable to the alluring colored advertisements of the popular periodicals. This word "new" excites our imagination to visions of the lively, hilarious methods of the up-to-date radio announcer who carries us away on a wave of enthusiasm.

Each new generation discovers things and methods anew. New influences and new angles of human nature which were old when the Greek philosophers were writing their immortal classics. New to the generation yes, but old as the hills and used either knowingly or unwittingly since Adam was a boy. Philosophies of life have not changed to an appreciable extent in two thousand years. Human nature appears to remain constant. We respond to the same influences now that governed the actions of our ancestors centuries ago. Fundamentals are the same. A successful politician was asked, "How do you manage to keep so popular?" To which he replied: "I look constantly for little favors I can do for people both old and young. They may some day become constituents of mine."

Undoubtedly practical methods lie within the reach of every banking organization for increasing good-will. Good service coupled with the sort of friendliness which inspires neighborly confidence is the keynote for increasing good-will. Not superficial friendship, but a cultivated interest in everybody who steps inside the door.

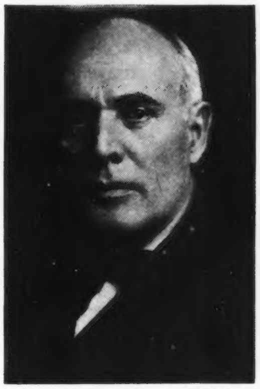
The practice of friendliness and service to those with whom we come in contact may be cultivated until it becomes a sort of second nature, and unless there is the seed of this fundamental instinct in the individual he has no place in an institution whose whole existence depends upon confidence and good-will.

This is attainable in every banking organization. It is not developed by giving souvenirs nor by free services of an expensive nature. Most upright individuals whose business is worthwhile prefer to pay their own way. But they do respond to an organization which is on its toes to render needed service in a cheerful friendly manner and accurate in the *n*th degree. The bank official or employee who goes out of his way to perform some desired service to the customers of his bank, who can answer inquiries in an intelligent manner or if he has not the information desired, can quickly direct the customer in a friendly and pleasing manner to the proper place, soon develops a following which will go with him from one institution to another, and a financial institution which encourages its employees 100 per cent to perform cheerful friendly service accurate to the *n*th degree will be rewarded with an ever increasing good-will.

Great things are made up of combined little things—the marvels of the microscope have demonstrated this. Daily service to every customer, big and little alike—homely little courtesies rendered cheerfully (CONTINUED ON PAGE 55)

"Familiarity of every employee with other departments of the bank may be cultivated by group meetings or by assemblies of the whole force to learn the problems of each department. Perhaps the greatest builder along this line is the complete study course provided by the American Institute of Banking and the activities which it may create within an institution. To dispense real service and build confidence with the resultant good-will, every employee must have a positive knowledge of the functions of a bank, especially in his own bank."—The Author

The Middle Road to Recovery



BLANK-STOLLER

MR. SISSON

FRANCIS H. SISSON, President of the American Bankers Association and vice-president of the Guaranty Trust Company of New York, on May 3 addressed the Washington convention of the Chamber of Commerce of the United States. He emphasized some of the factors that involve all business men "as they relate to our own immediate business and the future trend of economic affairs", and he set down the things that business men might ask without reserve from the Federal Government. These are summarized on this page.

In the course of the address—remarkable both for its aggressive quality and the enthusiasm it stirred—Mr. Sisson said that the most pressing thing upon our doorstep today is the question of inflation, and the elements of danger in it that must be faced.

"Inflation carried to its logical extreme," he said, "would mean cutting in two the purchasing power of the American people as it has been accumulated. . . .

"To say calmly that we are going to take it away from the people who saved it and give it to the people who have lost it and haven't got it, is not only monumental economic stupidity, but to me highly immoral and impractical. I think one of the finest exhibitions of courage and intelligence that we have had in Congress for some time, and it was a restoring factor of confidence, was to see Senator Glass stand up on the floor of the Senate and lay down the theory and the fact of this inflationary idea.

"One of the things that has disturbed me greatly has been the false thinking of the American people themselves on this subject, of our business men, many of them."

A Task for the Federal Government

1. To maintain law and order, to protect life and property for which the hazard is always greatest in periods of economic distress.

2. To restore confidence, confidence in our Government, confidence in our country, confidence in ourselves.

3. To sustain national credit, to protect the United States Treasury and its obligations at all hazards.

4. To balance the national budget, to live within our means.

5. To protect American interests abroad, to do our part to maintain international peace and economic order.

6. To legislate for the United States as a whole and not for any class or section or party in particular.

7. To stand equally firm against designing radicals and blind conservatives.

8. To follow the paths of experience and the lessons of history and not to be misled by either impractical theory or selfish interest.

9. To abide by the fundamental, time-tried laws of economics; in their operation there is no new order or any new deal.

10. To eliminate politics as far as possible in serving the common interests.

11. To recognize the need of an orderly program in the passing of measures related to each other. Income and outgo must be related.

12. To meet emergencies with emergency measures, but to move slowly in revising fundamental laws.

13. To remove the artificial restraints which retard recovery.

14. To strike the shackles from business and let it help itself under proper regulation.

15. To turn a deaf ear to siren calls for cheap money and artificial stimulants.

16. To recognize responsibility of leadership in maintaining harmony and inspiring cooperation, and the tremendous importance of experience and character in piloting the country through monetary shoals.

EDITORIALS

Why Penalize Sound Banking?

THE late James B. Forgan of Chicago once said: "Is there anything in the relations existing between banks and their customers to justify the proposition that in the banking business the good should be taxed to pay for the bad; ability taxed to pay for incompetency; honesty taxed to pay for dishonesty; experience and training taxed to pay for the errors of inexperience and lack of training, and knowledge taxed to pay for the mistakes of ignorance?"

The obvious injustice of penalizing good banking for the protection of bad banking, of hazarding the funds of sound institutions to cover the losses of the unsound, must be clear to anyone who will give this matter impartial consideration. It is entirely possible that the unwarranted burden which this would place on good banks might threaten the stability of the entire banking structure. It is an impractical scheme to salvage incompetency and failure in others that might imperil the very existence of sound and well managed institutions.

"INSURANCE"

DEPOSIT insurance, as defined in the Glass and Steagall bank bills now before Congress, does not differ in fundamental principle from the various guaranty schemes which have failed disastrously in every state where they have been tried.

The basic idea of all of them has been to guarantee specified classes of bank depositors against the loss of their deposits through the failure of their bank, by means of an insurance fund created by premiums in the form of assessments on banks proportionate to their volume of deposits.

EXPERIENCE

DURING the past quarter of a century eight states have attempted to set up and maintain funds for the guaranty of bank deposits. This is the record:

Oklahoma—enacted in 1907; inoperative in 1921 due to the fund's being practically insolvent; repealed in 1923, deficit being between $7,000,000 and $8,000,000.

Kansas—enacted in 1909; repealed in 1929; deficit, $7,000,000.

Texas—enacted in 1909; repealed in 1927; deficit, $16,000,000.

Nebraska—enacted in 1909; repealed in 1930; deficit, $20,000,000.

Mississippi—enacted in 1914; suspended in 1930, due to deficit of $3,000,000 to $4,000,000.

South Dakota—enacted in 1915, repealed in 1925; reinstated by referendum in 1926; amended in 1927; deficit, $32,000,000.

North Dakota—enacted in 1917; repealed in 1929; deficit, $14,000,000.

Washington—enacted in 1917; voluntarily canceled when Scandinavian Bank in Seattle failed with deposits of $9,000,000; repealed in 1929.

In 1829 New York enacted a bank guaranty law. The fund became bankrupt in 1837 and the law was repealed in 1842.

If experience means anything the history of the eight state guaranty plans shows that the idea is inherently fallacious. It is based on erroneous premises and assumptions. It is peculiarly one of those plausible, but deceptive, human plans that, in actual application, only serve to render worse the very evils they seek to cure.

It is fundamental that the only real guaranty for bank deposits is good banking. Deposit guaranty is not good banking. It is an attempted substitute for good banking. The guaranty of deposits cannot be made to take the place of sound public banking policies.

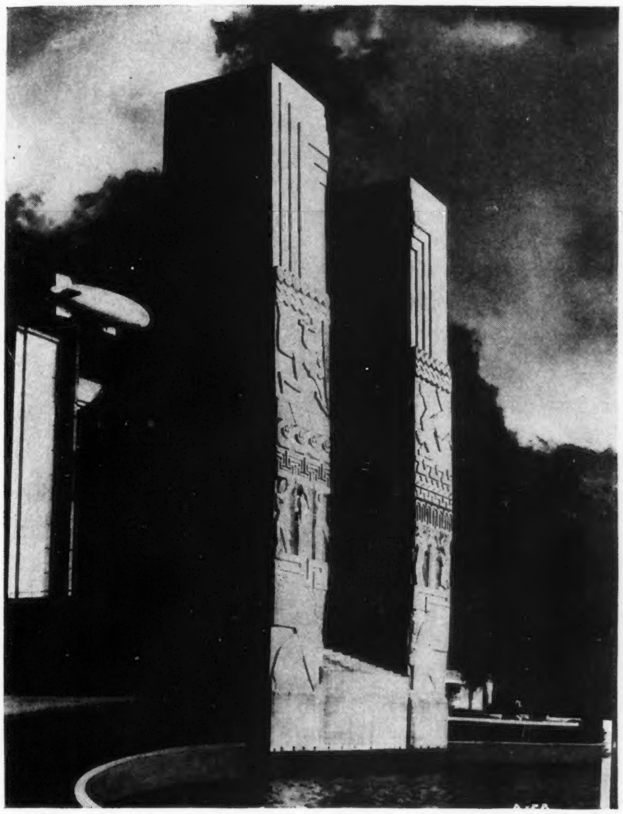
THERAPY POST MORTEM

GOOD banking, like good health, cannot be created by post mortem measures to make good the ravages of previous bad habits or conditions. The way to guard against banking troubles is to apply sound habits, principles, safeguards and forehanded methods as an inherent part of banking operations themselves.

It is a fundamentally wrong approach to the banking problem to set banking apart as a financial activity that is normally liable to cause losses and business confusion that must be indemnified against. This, in effect, would be to recognize that there must be tolerated and carried in the banking structure types of banking and classes of bankers whose methods and shortcomings are bound to cause disasters and that the resulting damage must be paid for by assessments on the legitimate earnings of good banking.

Insurance is justifiable against unpreventable natural risks. It is essentially anti-social when used as a make-good for preventable wastes and controllable losses. The causes of insecurity of bank deposits are found for the most part in economic conditions and banking practices that can be identified. The logical procedure is to aim at prevention of these causes so far as possible and at fortifying the banks by good banking and sound public policies against adverse circumstances so as to avoid failures.

THE MONTH



GLOBE

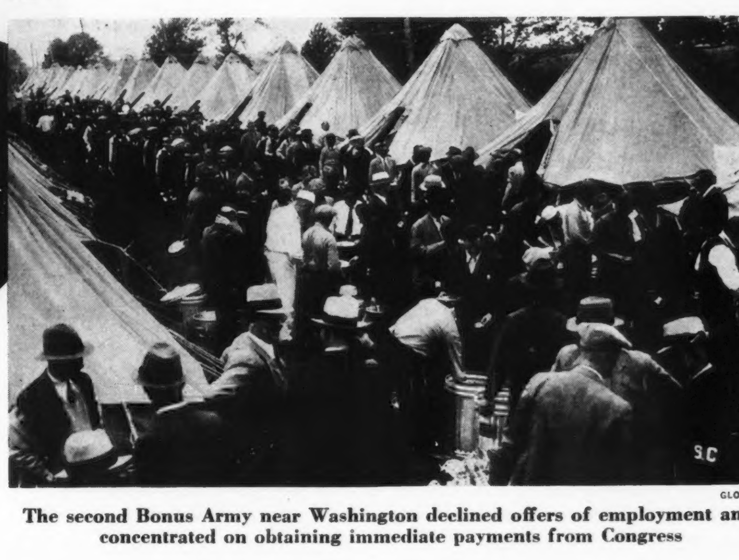
Opening of Chicago's Century of Progress Exposition stimulates the return of confidence

KEYSTONE

Norman H. Davis, as President Roosevelt's Ambassador-at-large, prepares the ground for America's participation in the London Conference

KEYSTONE

Senator Glass and Secretary Woodin, both of whom prefer sound money



GLOBE

The second Bonus Army near Washington declined offers of employment and concentrated on obtaining immediate payments from Congress

A Pattern of Constructive Changes

Summary of the Recommendations Approved by the Executive Council

A revised Glass bill should be enacted now, and the Federal administration should create a commission to recommend after mature deliberation the further changes that should be made in our banking system, in our Federal Reserve System and in our monetary system.

In order that banks generally may become members of the Federal Reserve System the provisions of the Reserve Act should be so broadened as to allow for admission to membership of numerous state chartered commercial and mutual savings banks not now within the System.

Provision should be devised against the independent proclamations of banking holidays by governors of states.

Branch banking privileges should be uniform within states for all banks whether holding national charters or state charters.

Reasonable limitations should be devised to control the sudden shifting of large commercial deposits.

Restraint on real estate speculation would probably prove to be a safeguard to American banking comparable to that which would result from restricted speculation in commodities or securities.

A Federal commission on banking legislation should consider regulation of interest payments on all classes of deposits and of requirements that depositors should give notification of intention to withdraw time deposits.

Federal legislation should provide for the careful and rigorous regulation of the granting of loans by banks to their own officers and directors.

As the general banking system is strengthened the postal savings system should be progressively restricted.

Deposits of public funds in banks should have the same status as private deposits, and should not be accorded special and additional security.

A more effective coordination of the activities of the Federal Reserve banks is needed.

The present emergency provisions with respect to member bank borrowing from the Federal Reserve banks should be retained as permanent provisions.

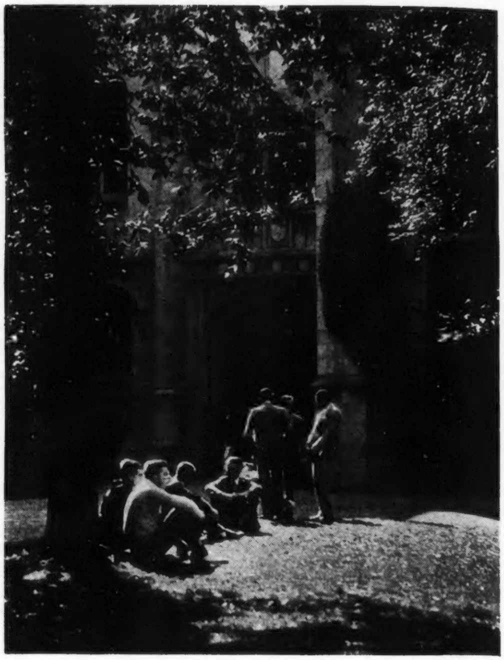
Consideration should be given to a possible modification of the Federal Reserve Act by which the System would be given power to change the amounts of member bank reserves required, for this power would afford control over any threat of dangerous credit inflation.

Consideration should be given to a change in our Federal Reserve Act by which a minimum required relationship would be established between our stock of monetary gold and the combined total of our Reserve notes and our bank deposits. This would nullify most of the dangers inherent in the hoarding of currency.

Expansion of business activity is our most pressing national need. It should be fostered by the national administration, by the Federal Reserve banks, by all commercial banks and by business men generally.

On April 12 the Executive Council, meeting in Augusta, approved the report of the Economic Policy Commission, the main points of which are summarized on this page

Trust Services To Colleges and Universities



GALLOWAY

•

A trust institution—

1. Safekeeps the endowment properties and gives to them the same physical protection as it gives to its own securities or those of its trusts.

2. Collects dividends, interest and all other income.

3. Collects all matured or called principals.

4. Notifies the bursar or treasurer or secretary or other designated representative of the college or university of all collections.

5. Notifies the bursar or treasurer or secretary or other designated representative of the college or university of all calls, subscription rights, defaults in principal or interest, and the formation of protective committees.

6. Prepares annually, or oftener, statements of the account as to both principal and income.

7. Makes periodic reviews and analyses of the securities and other properties constituting the endowment and makes recommendations for the retention, sale, exchange or conversion of present investments and for the purchase of new ones.

•

THE physical properties and endowments of institutions of higher education in the United States are now valued at over $2,500,000,000. Endowments alone aggregate over $1,150,000,000. Thirty of our colleges and universities have endowments that average $18,000,000. Eleven out of the 30 have endowments that average $35,000,000. A very few of them have endowments of over $100,000,000 each. The annual operating income of institutions of higher learning amounts to over $500,000,000. Gifts to them in a single year have reached a total of $233,000,000.

Within the trade-area of practically every trust institution will be found one or more of these endowed colleges and universities. The question raised in this article is this: What, if any, worthwhile service can trust institutions render to these colleges and universities? The answer is that they can help these colleges and universities handle their endowments.

The governing body of a typical college or university is a board of trustees. Sometimes it is a self-perpetuating board. Frequently, however, the members of the board are elected by the association or denomination or synod or convention or order or fraternity under whose auspices the college or university was established and is being operated. Whether self-perpetuating or elected, the trustees of such institutions are chosen because of their special interest in higher education. If they are not especially interested in higher education, then they will not be very helpful members of the board of trustees of the college or university. But, it stands to reason, an interest in education is not, of itself, any qualification for handling the endowment of an educational institution.

From time immemorial educational institutions have imposed upon the members of their governing bodies two separate, distinct and, sometimes, conflicting sets of duties and responsibilities. First, they have required them to conceive, work out and direct the general policies of the institution. This, to be sure, is enough to tax sufficiently the members of the board of trustees who as a rule are themselves busy men and women with responsibilities of their own. Second, they have required their trustees, in addition, to take the full responsibility of safekeeping, investing and reinvesting and accounting for their endowments.

The suggestion made here is that colleges and universities should consider the wisdom of trusteeing their endowments with local trust institutions. When a college or university trustees its endowment, it accomplishes three things. First, it imposes upon a financially responsible, continuing-business corporation, which makes a business of handling other people's property, the duties, responsibili- (CONTINUED ON PAGE 34)

GALLOWAY

Trust institutions offer American colleges and universities a choice of three services—active trusteeship, custodian trusteeship and managing agency—each of which is designed to promote the safekeeping, the conservation and good management of funds

•

(CONTINUED FROM PAGE 32)

ties, and liabilities for handling its funds. When the board of the college or university, itself, handles the endowment it is, in a sense, both trustee and beneficiary. In practice, there is no one but the board of trustees to check the performance of the group as a board of trustees. But when the funds are committed to a trust institution either as trustee or managing agent the trust institution is accountable to the board, and the board keeps a check.

Committing the management of the endowment to a trust institution releases the board of trustees to devote its energy, time, and thought to the promotion and development of the object for which the institution was established. Men and women admirably qualified to serve on boards of trustees of educational institutions and to direct their general policies refuse to accept membership on those boards because they are unwilling or unqualified to assume responsibility for the financial affairs of the institution.

Furthermore, the trusteeing of endowments is calculated to promote contributions to educational institutions. Men and women of means will be more disposed to make gifts to the endowments of institutions, particularly to local and smaller institutions, if they are assured that their endowments are trusteed with a well known, highly respected trust institution. While President Eliot could say in 1891 and no doubt the President of Harvard now could say, "The smallest gift made to Harvard University for a permanent purpose has never been lost", the same could not be said of the smaller institutions, some of which long ago ceased to carry on their functions.

Donors are becoming so insistent upon the trusteeing of endowments that, unless the college or university, itself, trustees its endowment, donors will be disposed to trustee their own gifts in their own way and thereby add to the number of small, special perpetual trusts for educational purposes, with all the disadvantages of lack of uniformity and special terms and conditions. The educational institution that desires to build up its endowment would inspire confidence in the safety and productivity of its endowment by letting it be known that all of its funds will be handled by a strong, conservative, and highly experienced trust institution.

Since 1906 England has had a special type of trusteeship which, it is said, is especially adapted to the requirements of educational institutions in the handling of their endowments. It is known under the statute as custodian trustee [The Public Trustee Act (1906) Sec. 4]. While custodian trusteeship is not known by that name in the United States, there is no reason why it cannot be introduced in substance if it is really needed in connection with the endowments of educational institutions.

The custodian trustee has physical custody of all securities and documents of title relating to the endowment. The securities are not only placed in his custody but they are actually registered in his name. The managing trustees—which would be the board of trustees of the college or university—have access to all the securities and documents and permission to take copies and extracts therefrom. The custodian trustee must concur in and perform all acts necessary to enable the managing trustees to exercise their power of management and their discretion. All sums payable to or out of income or principal must be paid to or by the custodian trustee, which may, nevertheless, allow the dividends and other income to be paid to the managing (CONTINUED ON PAGE 48)

The Condition of BUSINESS

THERE are two milestones on the way out of a depression that are enormously important from a psychological standpoint. The first of these is passed when, after a long period of continuous deflation, business finally is well enough, or sufficiently liquidated, to feel the stir of seasonal influences. The second is passed when the standard indices of industrial and business activity, though they may be far below normal, make that important transition as a result of which they begin to show gains, instead of losses, as compared with the year previous.

TURNING POINT?

THE first of these two milestones was passed last summer and fall. When the full story of the depression comes to be written, it may well be that in searching for a turning point the historian will decide upon June 15, 1932, when the unprecedented foreign gold drain on the United States was halted, or on July 8, when the Lausanne Agreement was signed. At any rate, somewhere in between or around these two dates the foundation was laid for the first seasonal recovery witnessed in American business since 1928. The late summer months of 1932 also brought the most sustained advance in the security and commodity markets that had been seen since the depression began.

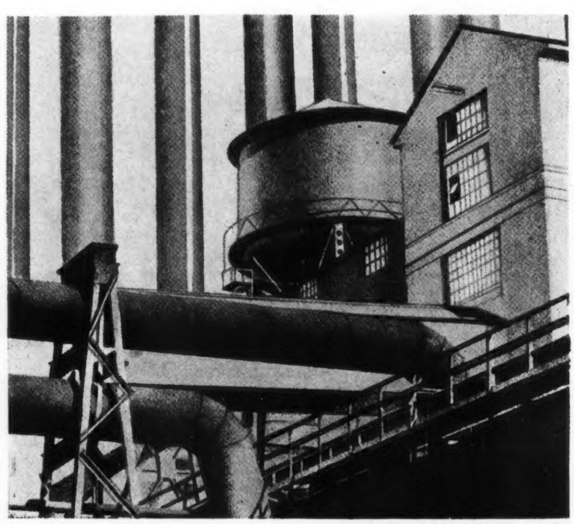
The events of last fall convinced seasoned financial observers that in the absence of some serious and unpredictable setback, the spring of 1933 would witness the passing of the second milestone in the statistics of recovery. And in recent weeks those predictions have been bearing fruit. For, since the banking moratorium ended in the middle of March, both business and the markets have gained in vitality; and since April 19, when President Roosevelt signalized the abandonment of the gold standard by placing an embargo on shipments of that metal, the pace of the recovery has been quickened. It has been quickened sharply in business, and sensationally in the speculative markets.

Since it is the purpose of this article to deal with the events of the last month in business, rather than with the merits of the policies which may have shaped those events, no attempt will be made here to examine in great detail the *quality* of the recovery during the month following April 19, as contrasted with the volume and extent of the recovery. Nevertheless, no review of this extraordinarily important period would be complete which did not set down the fact that many shrewd observers would have preferred the slower, but more certain, kind of recovery that we seemed to be about to realize within the confines of the gold standard to the more spectacular recovery purchased at what they regard as the unwarranted cost of the abandonment, even momentarily, of our monetary basis.

SEASONAL FACTORS—SPECULATION

THAT seasonal influences have been the core of the recovery since the middle of April is undeniable; but that the element of possible, or even probable, inflation turned the latter into an abrupt, rather than a gradual, rise, seems at least equally obvious. In other words, so far as the speculative markets are concerned, the heavy purchases of securities and commodities have been the result of three different market attitudes. Part of the buying has been for the account of persons who believed that we were on the verge of a definite and prolonged business recovery which justified substantially higher prices. Part has been for the account of those elements in the speculative community who have long sought, and who believe in the efficacy of, some form of inflation. And finally, part has been for the account of persons who do not necessarily look for corporate earnings in the near future to justify the current level of security prices and who do not embrace inflation as a form of relief, but who feel that the present monetary program of the administration emphasizes the desirability of owning equities regardless of earning power or any other consideration. A realization of these several factors in the speculative markets is essential for the person who would intelligently appraise the statistics of the speculative and business improvement themselves.

As to the figures of this spring recovery, they all point in the same direction of higher prices, an accelerated pace of indus-
(CONTINUED ON PAGE 54)



COURTESY OF THE DOWNTOWN GALLERY
"Smokestacks"—From a painting by Charles Sheeler

PACIFIC GAS AND ELECTRIC COMPANY

SAN FRANCISCO, CALIFORNIA

The Company ranks among the foremost operating utilities in the United States, being one of the largest producers and distributors of electricity and also one of the largest distributors of natural gas in the country. Its properties constitute an inter-connected and well co-ordinated system operated by a single management and extending into forty-six counties in Northern and Central California, with an area of 89,000 square miles and a population exceeding 2,900,000. The ratio of growth in the population of this territory, in the last census period, was twice that of the nation as a whole.

At the close of 1932, service was being furnished to 1,251,217 customers, located in 618 cities and towns, including San Francisco, Oakland, Sacramento, San Jose, Stockton, Berkeley, Fresno, and other important California communities, and in an extensive and well populated rural area.

The electric business of the Company or of its predecessors has been in continuous and successful operation for fifty-four years, and the gas business for seventy-nine years. Approximately 72% of gross revenues are derived from sales of electric energy, 26% from gas sales and 2% from minor activities.

Comparative Income Account—5 Years

	Year 1932	Year 1931	Year 1930	Year 1929	Year 1928
Gross Revenue (including Miscellaneous Income)	$85,517,495	$88,536,846	$77,369,388	$64,820,894	$61,788,079
Operating Expenses, Taxes (including Federal Taxes), Maintenance and Reserves for Insurance, Casualties and Uncollectible Accounts	36,941,863	37,512,845	33,925,139	31,247,790	31,759,205
Net Income	$48,575,632	$51,024,001	$43,444,249	$33,573,104	$30,028,874
Bond Interest and Discount	15,996,710	15,367,417	13,014,768	10,354,984	10,659,216
Balance	$32,578,922	$35,656,584	$30,429,481	$23,218,120	$19,369,658
Reserve for Depreciation	11,426,139	10,865,202	8,866,036	7,477,634	5,967,320
Surplus	$21,152,783	$24,791,382	$21,563,445	$15,740,486	$13,402,338
Deduct Earnings of Subsidiary Companies prior to Acquisition	....	....	159,304	....	....
Balance	$21,152,783	$24,791,382	$21,404,141	$15,740,486	$13,402,338
Dividends Paid on Preferred Stock	8,022,827	7,803,316	6,537,127	4,840,565	4,601,630
Balance	$13,129,956	$16,988,066	$14,867,014	$10,899,921	$ 8,800,708
Dividends Paid on Common Stock (8%)	12,501,723	12,198,117	9,691,164	6,191,892	5,550,574
Balance (Undistributed Surplus)	$ 628,233	$ 4,789,949	$ 5,175,850	$ 4,708,029	$ 3,250,134
Times Bond Interest and Discount Earned	3.0	3.3	3.3	3.2	2.8
Times Preferred Dividends Earned	2.6	3.2	3.3	3.2	2.9

Consolidated Balance Sheet, December 31, 1932

ASSETS

Plants and Properties		$660,293,078
Investments		5,154,862
Discount and Expenses on Capital Stocks		386,269
Trustees of Sinking Funds		280,878
Current Assets:		
Cash	$17,988,068	
Other Current Assets	15,743,163	33,731,231
Unamortized Bond Discount and Expense and Undistributed Suspense Items		18,475,713
Total Assets		$718,322,031

LIABILITIES

Common Stock of P. G. and E. Co.	$156,797,132
Preferred Stock of P. G. and E. Co.	130,571,807
Preferred Stocks of Subsidiaries	7,042,700
Minority Interest in Common Stock and Surplus of Subsidiaries	213,014
Funded Debt in Hands of Public	305,975,400
Current and Accrued Liabilities	21,329,272
Reserve for Depreciation	58,479,137
Other Reserves	3,869,654
Surplus	34,043,915
Total Liabilities	$718,322,031

Copies of Annual Report, including Income and Surplus Accounts and Balance Sheet, certified by Messrs. Haskins & Sells, Certified Public Accountants, may be obtained on application to D. H. Foote, Vice-President and Secretary-Treasurer, 245 Market Street, San Francisco, Calif.

INQUIRIES REGARDING THE COMPANY ARE INVITED.

A World Reserve System

(CONTINUED FROM PAGE 19)

United States, Great Britain, France, Germany and other leading nations, to $2,000,000 for Esthonia.

Under the necessary supporting legislation these notes would be accepted by each country as the equivalent of gold in international transactions. They would not enter the ordinary circulation of any of the countries but would be held only by central banks or national treasuries or otherwise in reserves against domestic note issues. The gold bonds against which the international notes would be issued would carry a low rate of interest and the income derived therefrom would go first toward the expenses of the system and, secondly, into a guaranty fund.

As further support, each participating government would guarantee the note issuing authority against any loss through defaults to an amount proportionate to the amount of its maximum quota. The bonds or any portion of them would be repayable at any time at the option of the government responsible for them or on notice from the governing board of the international system. The governing board would also have the power of using its discretion in regulating the volume of the note issue held by each government or central bank and the rate of interest on the bonds, with a view of preventing the rise of the gold price of primary, internationally traded products above some agreed normal level. The board also would have authority to modify the system to some extent to meet the needs of silver-using countries.

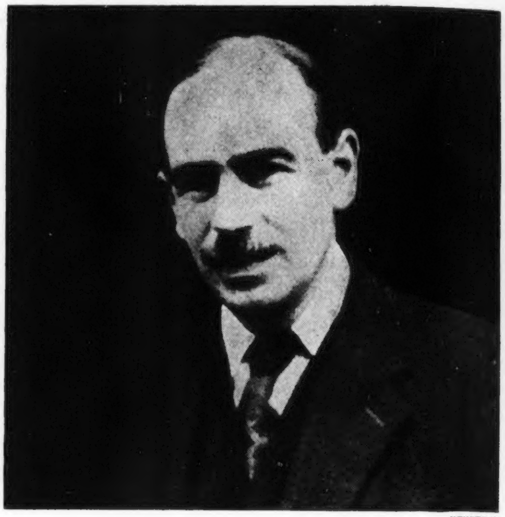
Stripped of its governmental aspects this plan represents an adaptation of some of the features of the Federal Reserve System of the United States to international and intergovernmental operations. It rests upon the idea of pooling excess central bank or governmental deposits and reserves for the benefit of other central banks or governments in need of credit. The issue of the international currency based on the bonds of the borrowing governments would be, in effect, the issue of Federal Reserve currency on the discount of their promissory notes. The currency issued would represent gold, would be accepted as gold but would have no gold back of it. The real backing would be gold credit and the gold in the scheme would be merely an imaginary unit.

In practical effect the formula would give to each country an amount of gold reserves, in the form of gold credits, equal to those it held at the selected normal date, such as 1928, without the actual transfer, possession or use of gold. In short, it would be a purely paper transaction of mutual support for mutual benefit.

Various modifications of these two general plans are proposed, among them several propositions looking to the establishment of an international currency for actual circulation among all peoples, supplanting the various national currencies and based upon a pooling of gold supplies. These plans also would involve the establishment of a central bank or issuing authority.

The principal objection to them is that eventually they would rest upon exactly the same foundation as the present international gold standard, and supplies of international currency would be as difficult to maintain in some countries as are adequate gold supplies at the present time.

It is evident that the ultimate test of any such scheme of international co-



KEYSTONE

Experiment

JOHN MAYNARD KEYNES, British Economist and author of one world monetary proposal discussed here says: It would be a necessary condition for the adoption of the proposed international Note Issue that each participating country should adopt a *de facto* parity between gold and its national currency, with buying and selling points for gold separated by not more than 5 per cent. . . . The *de facto* parity should be alterable, if necessary, from time to time if circumstances were to require, just like bank-rate—though by small degrees one would hope. An unchangeable parity would be unwise until we know much more about the future course of international prices . . .

WORLD GOLD BASIS IS BASLE BANK'S AIM

McGarrah Affirms His Faith in Standard in Yielding to Fraser as President.

UNITED STATES IS WARNED

Retiring Executive in Radio Talk Stresses Past Failure of 'Paper Currencies.'

REFORMED BASIS SOUGHT

Annual Report Asserts, However, That New Plan Will Not Work If 'Anarchy' Begins Again.

The Bank for International Settlements, while it grew out of the reparations payments, has played an increasingly important part in international economics

BRADLEY

Experience

BENJAMIN M. ANDERSON, JR., Economist of the Chase National Bank of the City of New York, states: Out of the prevailing vagueness of conception as to what constitutes "inflation" comes, readily enough, an easy optimism as to the possibility of "controlling inflation" once it gets going. There are those who believe that commodity prices, measured in an irredeemable paper money, can be controlled and fixed by a mere regulation of the quantity of money and credit extended. They believe that it is possible to move prices up and down merely by opening or closing certain valves in a financial control-mechanism. This view very largely ignores the workings of the human mind . . .

operation through a central international bank mechanism based either upon an actual pool of gold or merely of gold credit is the credit of each participating country. An analysis of each plan of this sort comes back to the basic condition or principle which underlies the whole international gold situation, namely, that what the various countries now without adequate gold supplies really need is not so much gold as the power to command gold.

Eliminating as temporary certain present international restrictions on the movement of gold, such as the embargo on gold exports from the United States, it is evident that under anything like normal conditions any nation which is in such an economic condition and position as will enable it to command gold can obtain it readily by purchase or a loan. Conditions are not normal, however, and the plain fact is that these basic principles are not operating satisfactorily. Economic conditions in all nations are abnormal and even many of the nations which under normal circumstances are economically strong and quite able to command all the gold they need in international transactions or as the basis for their domestic currency issues cannot now obtain it except at a sacrifice.

The world is faced with two alternative propositions. Either all but a few nations are completely bankrupt, in which event the gold stocks of countries having an adequate supply are not likely to be worth much to them in the near future; or these nations are solvent but temporarily embarrassed. In the latter case it is incumbent upon creditor nations in their own interest to make the temporary advances or accommodations which will enable these countries to meet their embarrassments and eventually pay out. In either event, in fact, it is evident that the world will not be able to get back to a normal trading basis without an adjustment of international obligations and payments, and a stabilization of exchange.

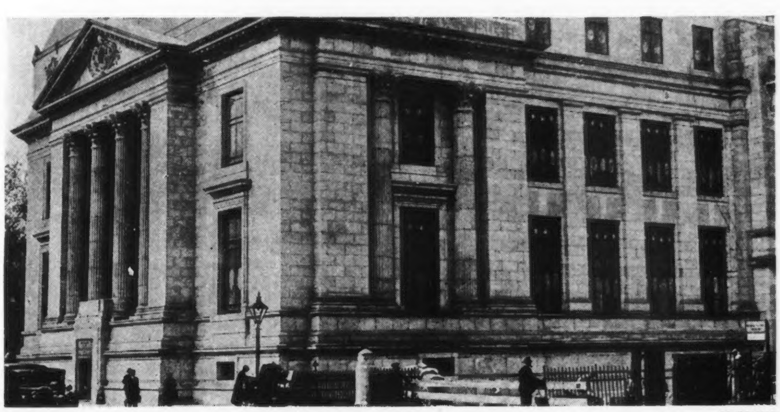
Under ordinary conditions and under the present gold system these temporary advances would be made by private capital, the usual and time-honored floating of international loans in which the United States has participated to the amount of around $12,000,000,000 net, public and private issues, in the past 15 years. The experience private investors have had with such securities in the past three years or so, however, has made it practically impossible for the countries which need this international adjustment the most to secure the advances required to relieve them of their temporary embarrassments.

Nor are the terms on which such international financing can be done even in more normal times such as to enable them to effect prompt and satisfactory recovery. High interest rates and amortization requirements have been the burden which has brought most of them into their present difficulties in the worldwide depression. The reduction of the interest rates on loans necessary to restore their international gold position to rates corresponding to the rediscount rates of central banks would relieve them of much of this burden not only as interest payments affect their domestic budget requirements but also in the reduction of one of the chief debits in their balances of international payments.

It is difficult to gauge the reaction of American finance and the man in the street to any of these proposals. Approval in theory is likely to be general but when it comes to parting with any considerable amount of American gold or American credit there is likely to be much excitement.

The advantages of effecting these international adjustments through a world central bank are obvious. In the first place the risks and responsibilities in-

The New Geological Museum, South Kensington, London, where it is planned to hold the sessions of the World Economic Conference



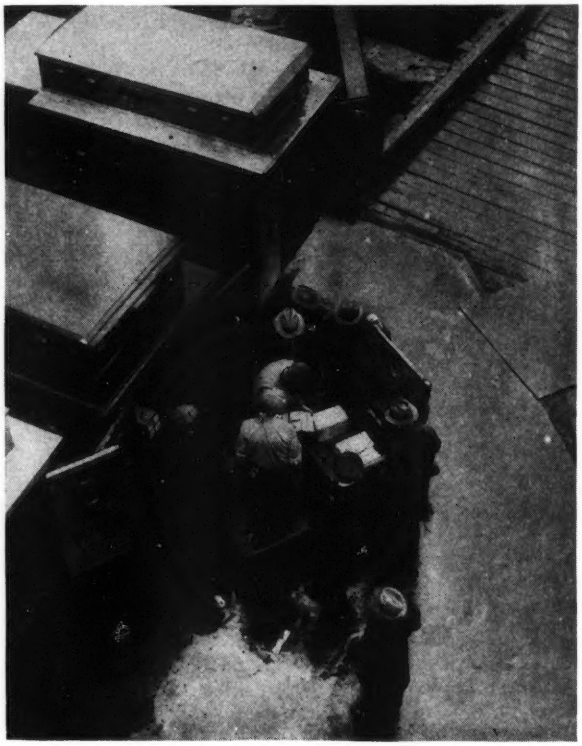
SOIBELMAN

volved in international loans are shifted from those of private investors in one or at most a few countries to a collective risk of all the participating nations which are benefited by the revival of trade and the rehabilitation of international finance which the adjustment is designed to effect. The risks also are so distributed as to effect a certain amount of insurance of the entire enterprise, and the credit granted is not so much to individual nations as to all nations. It is based not so much on the economic future of individual borrowing nations as upon the economic future of the world. If the creditor nations, including the United States, cannot be bullish enough on world conditions to risk a certain amount of credit for rehabilitation purposes, their present wealth is likely to crumble away in their bank vaults.

It is also evident that the use of a world bank mechanism for making these adjustments of gold or gold credit distribution is highly economical of the use of gold and will therefore render it easier for nations to obtain the gold they need. Whether or not such a world bank could be based entirely upon the combined credit of participating nations as advocated by the Keynes school of economists or based upon a pooling of a portion of world gold stocks, the amount of gold required could be reduced by more than half.

If the international credit is put out in the form of an international reserve currency or is used merely as bank credit it need not be backed by more than a portion of its face value in actual gold—say the 40 per cent gold backing required as support for Federal Reserve notes in the United States or even the lesser gold requirements successfully maintained in most of the central banks of the world. Under an effective international arrangement of this sort less than half the present gold stocks of the world could readily be used to support safely all proper demands of the world for sound and stable currencies among all nations.

There are certain preliminary conditions in national economics and finance which nations participating in any international banking or credit enterprise must meet before such an enterprise could be undertaken with reasonable prospects of success. Domestic budgets must be balanced and their international balances of payments must be brought into a fair equilibrium. It is a significant fact that a majority of the nations which would benefit most by an international credit arrangement are the nations which have done most to meet these conditions. They have been forced to do so by conditions brought upon them by the world depression.



GLOBE

Unloading a shipment of gold at the docks in New York City. Economists are seeking a better way than this to balance the world's books

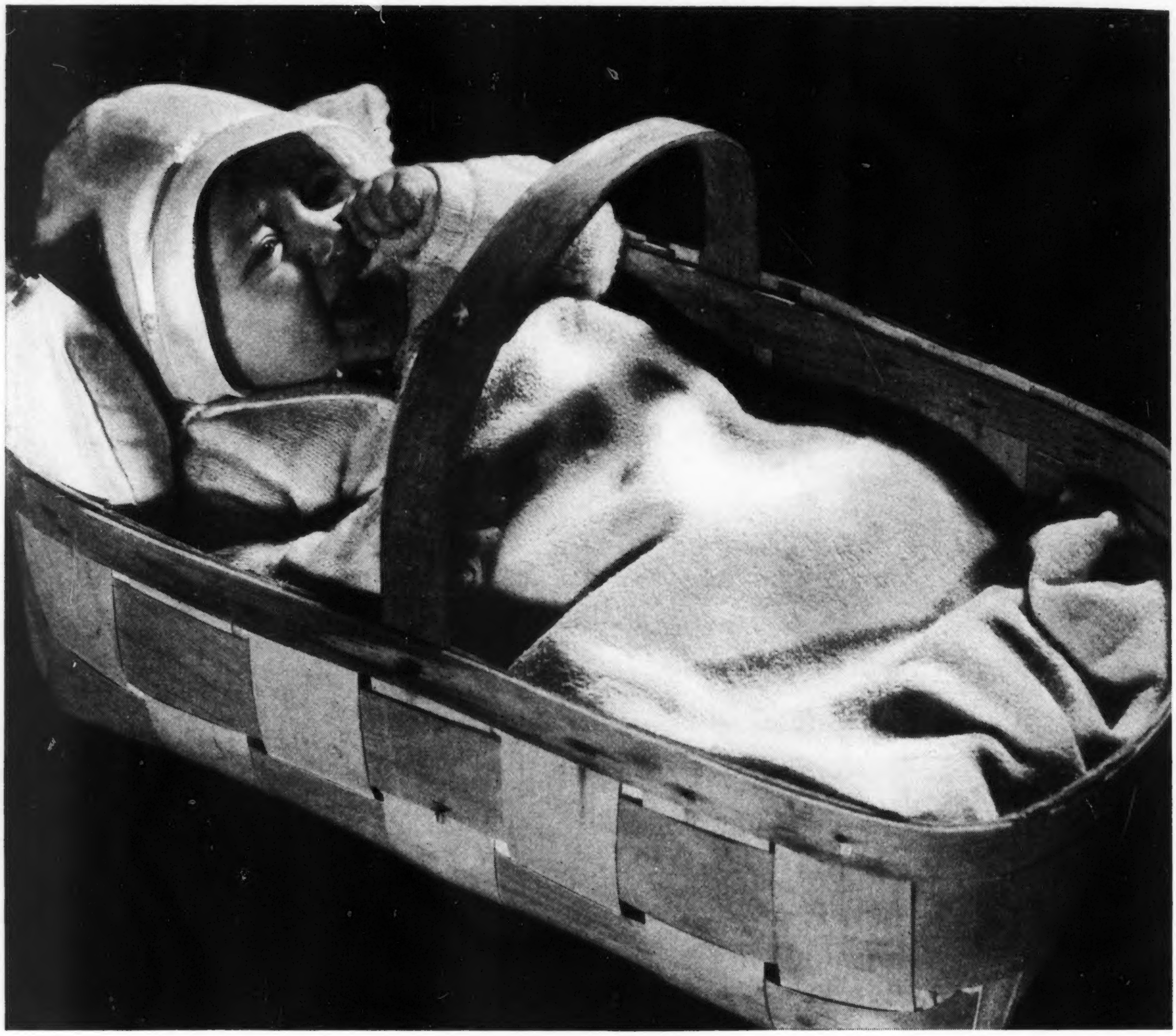
The chief cause of the financial embarrassment of these nations has been in the fall in price of and lack of demand for their principal export products. The falling off in their national incomes from their exports, especially in the face of high fixed charges for loans and necessary imports, has so unbalanced their international payments that restrictions on imports and national economy have been the only possible means of preventing a higher rate of defaults than has actually occurred.

These restrictions on imports and economies in national expenditures have brought world trade almost to a standstill, but in a large number of cases they have at the same time brought a better balance between national income and outgo in international relations and a closer approximation to balance in their domestic budgets. On the other hand some of the creditor nations, notably the United States, not so cruelly embarrassed in international payments, have failed to make much progress in the balancing process.

In final analysis, the credit of the debtor nations and the safety of any international plan to rehabilitate them and the world generally depend upon an increase in world commodity prices or an adjustment of their indebtedness to a new price level. This lifting of prices is at once the object and the means of international adjustment. The theory on which the chief governments of the world are now acting is that world prices will be restored to more normal levels by increasing the loan-spending of nations—not only by governmental expenditures on public works but also by corporate and individual expenditures in production. They assume that,

(1) Business can be moved off its present dead center by public expenditures on a large scale pursued with determination and with a definite object in view;
(2) With business thus started by government initiative private enterprises will be undertaken and, for the latter, abundant cheap credit must be available;
(3) For abundant cheap credit central banks must be freed from worry as to adequate reserves;
(4) For adequate reserves world wide action is necessary;
(5) World wide action can best be taken, if it can be taken at all, in the way of a central world bank or a central world authority which can afford central banks in the various countries the support and accommodation needed.

There is strong probability that that will be the king pin in all the machinery planned for world recovery.



Mural, belonging to the Bank of the Manhattan Company, showing the New York Stock Exchange, when the United States was very young

Security

Selected Answers to the JOURNAL'S May Question: "What Facts About New Security Issues Are Most Useful in Determining Investment Value?"

Character

I. (A) Industrial and Miscellaneous Issues:
1. Character of official staff and directors.
2. Certified operating statement and balance sheet for ten years or more.
3. Economic and financial history—past and present trend.
4. Market for product.
5. Competition in industry.
6. Protection received by tariff, governmental, or other agreements.
7. Unusual fees or bonuses paid.

(B) State and Municipal Issues:
1. Economic status of community.
2. Stability of people and governmental agency.
3. Financial set-up, showing revenues and expenditures, method of taxation, tax rate, statutory rate and ability to collect taxes when due.

(C) Foreign Civil Loans:
1. Stability of people and government.
2. Racial characteristics.
3. Economic history and tangible assets.

(D) General Factors Affecting All Securities:
1. Market provided for securities until maturity.
2. Marketability of security behind loan.
3. Previous defaults, bankruptcy or law suits against debtor or its representatives.
4. Legality, purpose and method for payment of loan.
5. Contingent liability as guarantor of other debts.
6. Financial statement of syndicate, total securities marketed and in default.

Background

II. 1. A general history of the company and a short survey of its prospects.

2. A comprehensive statement of the purpose of the new financing.

3. Comparative balance sheets of the company, certified to by public accountants, one reflecting its condition before the new financing and the other showing the effect of the new financing.

4. An earnings and dividend record of the company for five years next preceding the date of the new financing.

5. Yearly high and low, for a five-year period, of the company's securities enjoying a public market.

6. A statement about the management showing how voting stock is distributed and for how long a period the present (CONTINUED ON NEXT PAGE)

The Authors

Without exception the answers to the JOURNAL'S May question were excellent. It was an extremely difficult task for the judges to make a selection.

I. Leslie Q. Miller, Chase National Bank, New York, N. Y.
II. W. C. Walters, 7456 South Shore Drive, Chicago, Ill.
III. Waller C. Brinker, Jr., The International Company of Denver, Denver, Colorado.
IV. Charles E. Forbes, Paoli Bank and Trust Company, Paoli, Pennsylvania.
V. Wallace Weatherholt, Breckinridge Bank of Cloverport, Cloverport, Kentucky.
VI. Roger W. Haglund, Citizens National Trust and Savings Bank, Los Angeles, California.
VII. Oscar R. Carlson, New England Telephone and Telegraph Co., Boston, Mass.

senior officers have been identified with the management.

7. A statement showing whether the proportion of debt to invested capital has increased or decreased over a period of at least five, or better, ten years next preceding the date of the new financing.

This last is most important.

Three Main Factors

III. THE three following broad factors, to which equal weight must be given, determine investment value of new securities:

First: History and present standing of the issuing entity, namely: management; accountants; earning (or taxing) power; depreciation policy; physical condition of plant; debts and debt record; dividends; asset value; working capital position; nature of product or services furnished; competitive position of entity in the industry; location and population served; franchises or good will.

Second: Terms of the security issue itself, namely: size of issue; approval of legality; security for issue and position in capital structure; terms of repayment; tax exemption; marketability; sponsorship; trustee; price and yield.

Third: The outlook for the entity issuing the security, involving consideration of: estimated future demand for goods or services; possibility of change in public tastes; influence of the business cycle; results of research; technological change; political risks; wars; possibility of state or national supervision; currency risks.

KEYSTONE

Call room of the New York Stock Exchange in the late 1800's

Vigilance

IV. FACTS (1) A comprehensive audited, comparative balance sheet, income and profit and loss statement, covering the previous ten-year period or from date of incorporation.

(2) A chart tracing the market quotations of all of the corporation's securities, over the previous ten-year period.

(3) A careful analysis of the purpose and all the provisions relating to the issuance of the security, particularly the indenture of bonds.

Purpose (1) To show the trend of the corporation—earnings and conservative distributions being essential to investment values.

(2) Tending to show market reactions, under all conditions, during a business cycle.

(3) To determine the immediate and long term prospects and the terms of the contract.

Rules (1) Safety and liquidity—allowing for general conditions, the rate of return is indicative of the risk.

(2) Is this concern in a growing or a declining industry?

(3) Be vigilant—corporations do not get into difficulty overnight.

Responsibility

V. 1. A survey of business conditions in the field covered by the security offered and historical data on house issuing same.

2. A concise description of the security and the purpose of the same with exact information as to its status in relation to other indebtedness of the issuer.

3. An independent accountant's report on earnings, dividends and indebtedness of the issuer over a five-year period immediately previous to the offering of the security.

4. An independent appraisal of tangible property securing the issue giving consideration to earnings and cost of replacement.

5. A record of the directors' holdings in the house of issue and how the same were acquired.

Rules for the Monthly Forum

1. Answers must be 150 words or less.
2. They must be received by the JOURNAL not later than the 10th of the month in which the question appears.
3. Anyone who wishes to obtain in advance the question for the following month can do so by writing to the JOURNAL on or before the 15th of any month.
4. Answers may be submitted by anyone not a member of the JOURNAL staff, regardless of whether he is a subscriber.
5. Awards will be made to the seven most concise, accurate and interesting answers. The first of the seven, judged on that basis, will be awarded $50, the second, $25 and the remaining five, $5 each. Awards will be announced in the issue of the JOURNAL following that in which the question was announced.
6. Each month's question will be particularly appropriate at the time of publication, and articles covering various aspects of the question will be found in the JOURNAL'S pages for that month.
7. The JOURNAL may terminate the forum at any time, making awards, however, for answers to the last questions published.
8. Manuscripts will not be returned except on request of the author.

6. The brokerage paid the underwriter and terms of any agreement giving concessions in the purchase of the security.

7. An opinion from a recognized attorney-at-law that issue is legal.

8. Underwriter's acceptance of responsibility for the facts presented in the prospectus.

Listed or Unlisted?

VI. 1. The underwriting firm or syndicate. Is their integrity such that their recommendations carry weight?

2. The security itself. Is it listed on a recognized exchange that would give ready marketability as well as an assurance that proper examination has been made? Is the yield commensurate with the degree of risk? Does it meet the purpose of the investment desired?

3. The organization of the corporation issuing the securities. Is its corporate structure suited to the industry? Is the capital in proper relation to sales turnover and funded debt? Is its management of recognized ability?

4. The product manufactured or the service rendered by the corporation issuing the security. Is there adequate demand for the product or service to insure probable success? Can it be marketed successfully in competition with other similar lines?

Management

VII. IN determining the investment value of new securities, one must consider three factors: the security behind the issue, the management behind the business, and general market conditions.

In regard to the first: Does the issue represent a mortgage on property, ownership in a business, or merely a promise to pay? Have interest and / or dividend requirements always been covered with ample margin? Will the addition of new capital result in a commensurate increase of earning power? What risks, arising from political, technological, industrial, and social developments, is the business likely to experience?

In regard to management: Is it honest and trustworthy? Is it resourceful? Is it free from the control of self-seeking groups? Are its financial reports intelligible and certified by independent auditors.

In regard to general market conditions: Is the yield the maximum obtainable consistent with financial safety? Is the security issue readily salable?

The Future of Government Banking

(CONTINUED FROM PAGE 13)

resources still available, in its revolving fund, which includes income on loans, amount to approximately $150,000,000. The holdings of the stabilization corporation in wheat and cotton are being gradually liquidated, partly by distribution through the Red Cross.

The Farm Board has been abolished and all its powers except that of financing stabilization corporations have been given to the governor of the Farm Credit Corporation. The stabilization powers have been withdrawn.

R. F. C. SET-UP

THE Reconstruction Finance Corporation is by far the most powerful banking institution in which the United States Government has ever been interested. Its capital is $500,000,000, all taken by the United States. It was authorized originally to have outstanding three times its subscribed capital. By later amendment it was empowered to make further loans amounting to 3⅗ times its capital stock. The farm mortgage refinancing bill increases this amount by $300,000,000 to enable the Corporation to lend the joint stock land banks $100,000,000 and to furnish the Farm Loan Commissioner $200,000,000 for $5,000 loans to individual farmers. The same bill also empowers the Corporation to lend $50,000,000 to drainage districts. The total amount available to the Corporation for all purposes is $3,800,000,000, which as increased by the farm bill will be $4,100,000,000. The Corporation is permitted to engage in almost every sort of central bank financing except issuing money and taking deposits from private interests. It is allowed to lend to banks including savings banks and trust companies, whether open or closed, to building and loan associations, insurance companies, mortgage loan companies, credit unions, Federal land banks, joint stock land banks, intermediate credit banks, agricultural credit corporations, live stock credit corporations, railroads, states, municipalities and other public agencies and to buy preferred stock in commercial banks to facilitate reorganizations.

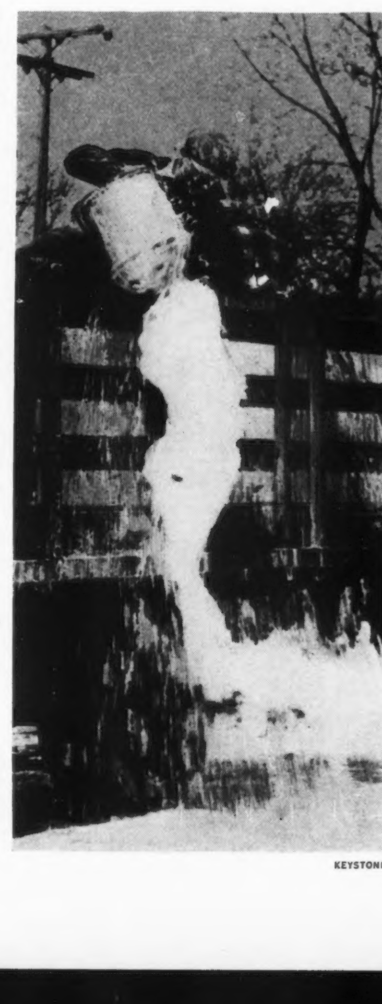
Loans up to $300,000,000 may be made to states for relief purposes. Other loans to states and their subdivisions may be made only to finance projects which are self-liquidating. These self-liquidating projects include reconstruction of slum areas, construction and improvements of bridges, docks, canals and waterworks. The Corporation under its present powers may make loans up to January 22, 1934. It is therefore strictly an emergency financing organization. Total loans to March 31 amount to approximately $2,586,944,668 of which about a billion have been to banks and about $365,000,000 to railroads. Total repayments amount to $418,732,329. Applications aggregating $242,491,200 for relief purposes have been approved. Of this amount $201,374,181 had been paid to the states up to March 31.

Up to the same date the Corporation had purchased $12,500,000 of the preferred stock of commercial banks to facilitate reorganizations.

The Reconstruction Finance Corporation has created 12 emergency regional agricultural credit corporations, with 19 branches, having aggregate capital of $44,000,000. These corporations make loans to farmers and stockmen. The Farm Credit Administration assumes control of these institutions under the new legislation.

A law passed in July, 1932, provides for a maximum of 12 new mortgage banks to have a capital of not less than $5,000,000 each. Congress provided that the Secretary of the Treasury might subscribe to the capital of these banks up to $125,000,000. The Government has subscribed practically all the authorized amount but has paid over only about $70,000,000. Member stockholders have paid in $30,000,000. It is assumed that ultimately building and loan associations and other institutions making long term home mortgage loans will own most of the stock. Advances from Home Loan banks are restricted for the most part to stockholders. The advances from Home Loan mortgage banks can be made against home mortgages with a maximum maturity of 15 years and secured by property having a value of not more than $20,000. The Home Loan banks are allowed to issue collateral trust bonds and debentures. These bonds and debentures are tax exempt but are not guaranteed by the Government.

The 12 banks in the system have been organized at a cost to date of about $500,000. Loans of $26,000,000 have been authorized but only $15,000,000 has been advanced. The purpose of the Home Loan Bank System by providing for Government supervision and the issuance of tax exempt securities is to enable the small home owner to be financed at a low rate of interest in the same manner as farmers may obtain accom-



Discontent in the farm areas. The author states that "the Government's financing and banking activities should be kept severely apart from subsidy and other schemes for raising the prices of farm products"

KEYSTONE

—CONTINUED—

Future of Government Banking • Trust Services to Colleges

•

Government Banking

(CONTINUED FROM PRECEDING PAGE)

modations through the Federal Land Bank System. Since all of the Home Loan banks have an ultimate responsibility for debentures and bonds issued by any of the banks, the aim of the system is to provide a reservoir of credit which will result in equalizing and lowering interest rates. For the time being, however, the maximum interest rate which may be demanded from the home borrower is 8 per cent although the limit in the farm mortgage rates is 6 per cent.

The Administration's proposal for refinancing home mortgages authorizes the Home Loan Bank Board to create an emergency loan corporation with a capital of not more than $200,000,000, all to be subscribed by the Government. This corporation may issue up to $2,000,000,000 in 4 per cent tax exempt bonds. The interest but not the principal of these bonds will be guaranteed by the United States. The 4 per cent bonds may be exchanged during three years for existing home first mortgages on fees or 99 year leaseholds, or the proceeds may be used to make new loans to enable mortgageors to refinance old mortgages. A home must be occupied by the owner, must be worth not more than $10,000 and be occupied by no more than three families. Loans or exchanges will be made on a basis of 80 per cent of present values. Advances will be made for payment of taxes but total advances must not exceed 80 per cent of the security. New loans will bear 5 per cent interest. New mortgages must provide for amortization but postponements may be arranged for three years. Provisions for exchange of new for old mortgages are permissive, but not mandatory.

The bill also permits the Home Loan Bank Board to incorporate Federal savings and loan associations, in communities not already served by satisfactory home savings institutions. The Government may subscribe up to $100,000,000 in preferred stock of such associations, but not more than $100,000 to a single association.

It is obvious that at least before the consolidation of the agricultural financing agencies too much machinery had been created to administer the financing institutions which the Government either owns or supervises. Existing institutions, however, represent a considerable differentiation of function and any consolidation should be preceded by a careful survey of the actual activities of the various institutions.

The only consolidation the Administration has announced is that of the agricultural credit agencies. As a permanent solution this arrangement is too closely bound up with politics. A better scheme would be to create a finance corporation under Federal charter to take over either the agricultural finance activities of the Government or all its lending agencies. Such a corporation's permanent function would be largely that of a central agricultural rediscount corporation and holding company for the Government's regional agricultural financing institutions.

The regional corporations would be accorded as large a degree of freedom as would be compatible with their relations to the central corporations and with reasonable standards of efficiency. For the most part the regional corporations would be independent units concerned only with their own territories. The central corporation would be subject to Congress so far as general policies were concerned, and its directors would be appointed by the President for long terms and on a non-political basis. The directors would have the same powers over administration as would be accorded the directors of any banking institution. The plan for refinancing home mortgages, as has been indicated, utilizes a Government corporation as an instrumentality of the Home Loan Bank Board.

The Government's financing and banking activities should be kept severely apart from subsidy and other schemes for raising the prices of farm products. One is business, the other is major political policy. The advantages of the corporation over bureau control for the business functions are real and significant.

THE NEW PATHWAY OF LEGISLATION

NEW YORK HERALD TRIBUNE

Trust Services

(CONTINUED FROM PAGE 34)

trustees or to such persons as the latter may direct or deposited in the bank to the credit of such persons as the managing trustees direct. In such cases the custodian trustee is not required to see to the application of the funds or to be answerable for any loss or misapplication.

English trust men regard custodian trusteeship as being admirably adapted to the requirements of endowed institutions.

If, for some reason, it should not be legally possible in (CONTINUED ON PAGE 50)

—CONTINUED—

•

Trust Services to Colleges

•

Closed Banks (A Study)

•

Trust Services

(CONTINUED FROM PAGE 48)

a particular case to trustee the endowment of a college or university by transferring the legal title of the endowment properties in trust to the trust institution, it would be possible to accomplish substantially the same results by creating a managing agency for the endowment properties.

Under a managing agency the legal title to the properties would remain in the college or university, but the physical safekeeping, custody, and handling of the properties would be committed to the managing agent.

The trust institution in its capacity of managing agent gives the property the same degree and quality of care and attention that it gives to the securities in a trust. Upon the opening of the agency account, the trust investment organization of the trust institution makes a complete review and analysis of the securities in the account. It then gives the board of trustees a comprehensive report on the investment status of the account, together with recommendations for the retention of some securities, for the sale of other securities, and for the purchase of new securities. The trust institution as agent retains, sells, or buys securities according to the direction given by the proper representative of the college or university.

The managing agent makes subsequent periodic reviews, analyses, and reports in accordance with the wishes and directions of the college or university. Important as are the original analysis, review, and recommendations, which are designed to improve the holdings in the endowment account, they are no more important than the subsequent, periodic reviews, analyses, and recommendations based thereon, which are designed to keep the investments in the best condition.

According to the degree of control of its endowments that the educational institution desires or is legally required to retain, it may either create a trust and impose upon the trustee the full responsibility for making and changing its endowment investments; or it may create a custodian trusteeship under which the legal title passes to the custodian trustee, but the complete responsibility for making and changing the investments remains in the board of trustees of the college or university; or it may create a managing agency under which the legal title and the complete control remain in the board of trustees and the managing agent is depended upon physically to safekeep the properties, promptly to notify the board of trustees of all investment changes due to calls or maturities or new associations or defaults, and from time to time to make recommendations of changes in the endowment investments. The fundamental difference between the active trust and the managing agency is that under the former the trust institution has the responsibility of making and changing the investments, whereas under the latter the trust institution has the responsibility only of recommending investments and reinvestments and the ultimate responsibility for investing and reinvesting still remains upon the board of trustees of the college or university.

Closed Banks

(CONTINUED FROM PAGE 17)

Frequently, a bank was operated as a strictly commercial bank with substantially all deposits invested in local loans, though savings deposits constituted 70 per cent or more of total deposits.

Certain causes of failure were peculiar to one or a few banks, while other causes might be termed "contributing."

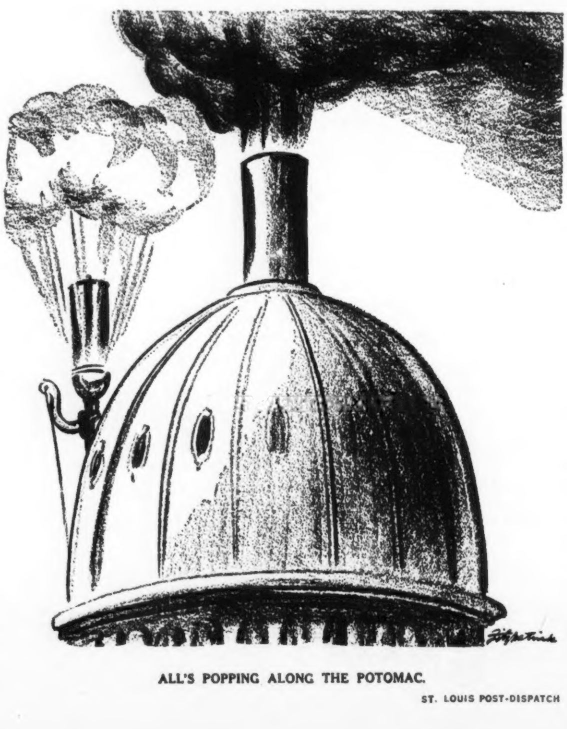
It has been frequently stated that many banks erected pretentious monuments in the form of bank buildings only to see them become tombstones. The amount of a bank's capital and surplus invested in a bank building should rarely if ever exceed 25 per cent. It is not uncommon to find the entire capital structure so invested in some instances.

Consolidations, as a rule, tend to strengthen the banking position of a community and frequently are a necessary step. However, the desire for size bringing about consolidations on an unsound basis, with the payment of excessively high prices for the bank acquired, occasionally marks the start of pressure that brings failure. A leading banker once said: "You cannot scramble two bad eggs and get a good omelet."

As the result of consolidation three of the banks studied were brought under pressure and eventually failed.

Occasionally, a bank with a sound statement, and run as well or better than the average, finds itself under pressure from its community because some officer or director associated with it has come before the public in an undesirable light.

The necessity of borrowing at the first sign of liquidation is the reflection of a weakness that may be immediately noticed. The only protection against this is the maintenance of an adequate secondary reserve and the limiting of the amount of deposits to be invested in loans.



ALL'S POPPING ALONG THE POTOMAC.

ST. LOUIS POST-DISPATCH

Rail—Truck Competition In England

SINCE highway competition with the railroads is not an American problem alone, the United States may well take lessons from the progress that Great Britain is making in both cooperative and legislative steps toward "equitable and fair relationships in the public interest."

British cooperative efforts centered last year in the conference headed by Sir Arthur Salter, economist, and the recommendations of that group of experts as reported to the Minister of Transport. More recently, legislative steps centered in the Road and Rail Traffic Bill which was made public a few weeks ago. This bill, quoting the London *Times*, "is an honest attempt to carry out the recommendations of the Salter Conference with respect to the licensing of goods vehicles. It does not, indeed, deal with questions of taxation, since any changes which may be made in the scale of licence duties must naturally be left to the Budget; but it embodies, with one or two omissions and differences of relatively minor importance, the general principles laid down in the Salter Report.

SUMMARY OF THE BILL

"THE Bill proposes to institute a system of licensing for all mechanically propelled vehicles, except those used exclusively for agricultural purposes, in respect of which licence duty is payable at a reduced rate under the Finance Act of 1920. The licences are to be of three kinds: a public carrier's or 'A' licence, which entitles the owner to carry other people's goods for hire or reward; a private carrier's (ancillary user's) or 'C' licence, which entitles the holder to carry only his own goods; and a limited carrier's or 'B' licence, which entitles him under certain conditions to carry his own goods and also to ply for hire.

"The licensing authority, which is the chairman of the Traffic Commissioners in each area sitting alone, must grant 'C' licences without restriction, but is empowered to use discretion with regard to the number of 'A' and 'B' licences granted, and to attach to the latter certain conditions restricting, for example, the locality in which the holder may operate, or the classes of goods he may carry, or any other conditions which it

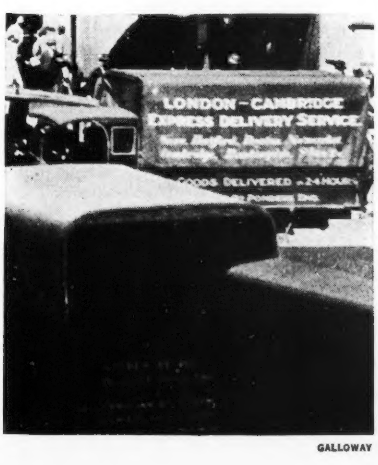
may be thought fit to impose in the public interest and with a view to preventing uneconomic competition. Objections may be raised by persons who are already providing transport facilities of any kind against the grant of 'A' and 'B' but not of 'C' licences, on the ground that transport facilities in the locality are, or would be if the licence were granted, excessive to the needs of the locality; and both the applicant and the objector are given recourse to an appeal tribunal of three to be appointed by the Minister. . . .

"The Bill also sets up a Transport Advisory Council on the lines laid down in the Salter Report, and relieves the railway companies of certain obligations and restrictions, notably those with respect to undue preference which have been held by the Railway Rates Tribunal to make the granting of flat or blanket rates illegal. Such rates may in future be granted subject to the approval of the Railway Rates Tribunal, but any trader who considers that his business has been or will be detrimentally affected by them is given the power to raise objections before that body."

REGULATION IMPERATIVE

HAVING discussed other points of detail, the London *Times* editorial added, "the great merit of the Bill is that it has grappled firmly with the task, which every impartial person has long recognized as imperative, of regulating road transport while at the same time imposing as few vexatious restrictions as possible."

A week later, on April 25, the British budget presented to Parliament by Neville Chamberlain, Chancellor of the Exchequer, included a concession for the railroads "in the form of an increased licence tax on heavy commercial motor vehicles."



GALLOWAY

The Condition of Business

(CONTINUED FROM PAGE 36)

trial activity, and a continuance of that improvement in the monetary and credit position which had been in progress since March 4, when nearly every bank in the country was closed.

Between February 8 and March 2—which may be roughly designated as the period of the bank moratoria—the stock market, as measured by the averages of the New York *Herald Tribune*, declined from 84.26 to 80.49, or 3.77 points. In the ensuing period—the period that was marked by the reopening of the banks, but when few persons seriously entertained the possibility of inflation—the market regained all this loss and a little more, rising to 84.65, or 4.16 points between March 2 and April 18. In the ensuing three weeks and a half, which began with the gold embargo on April 19 and ended Friday, May 12, however, the list climbed 8.63 points, or more than twice the amount of its advance in the six weeks previous.

COMMODITIES

THE rise in commodities has been, if anything, more sensational than has that in stocks, since the question of possible earning power is not present to bedevil the speculator in this quarter, and since President Roosevelt has made it clear that what he is seeking is "a restoration of commodity price levels which will afford their producers the same purchasing power that they enjoyed in 1926."

INDUSTRY

IN industry, the most important improvement has taken place where it was needed the most, that is, in the heavy industries, which are represented by the steel production figures. By the second week in May steel output was 7 points ahead of the same week in 1932.

In the movement of freight the improvement has also been pronounced on the basis of comparison with last year, although up to the middle of May, 1932 had not been passed.

Like steel production, the output of electric power finally crossed that of a year before, but at a later date and by a narrower margin.

By May 10 the entire gold hoarding movement had been erased, or, at least, that part of the movement that accompanied the period of the closing of the banks. The $744,000,000 gold withdrawn in that period had been returned.

Public Relations Start at the Counter-Line

(CONTINUED FROM PAGE 26)

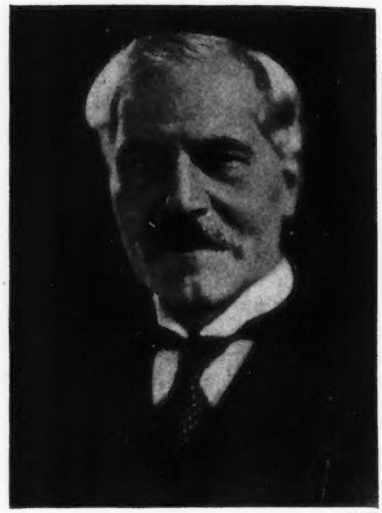
one by one to customers as they come day by day and month by month, are as great builders as are the minute coral which built the mighty Barrier Reef off the coast of Australia. Piled one upon another they are irresistible.

The messenger or runner is the bank to many people. To the bank management he may appear a minor contact but he also wields a mighty influence in the building of good-will and he must constantly be imbued with the importance of the contacts he makes and ready to render courtesy in return for curtness many times.

Preoccupied officials occupying desks within the range of customers can do much to uphold the stock jokes about the frigid atmosphere and glassy stare of the banking fraternity. A real executive may arrange his time so that during public hours attention can be given to friendly nods and greetings whenever a customer's eye meets his from anywhere in the lobby or within reasonable range, and this whether the customer is personally known to him or not. A customer is entitled to this courtesy whenever he comes inside the door. And an official of the bank can cultivate this friendly attitude until it becomes a real part of him and is a daily habit. His problems are mighty ones to him (of course) and demand concentration, but they are of no more importance to him and his institution than are the problems of the bank's customers.

HOW—

AND so to build good-will, let us have classes among employees. Classes which will increase their knowledge of banking; classes which will school them in polite approach, friendly greeting, alertness to customer desires, prompt service accurate in the *n*th degree, and all these in a quiet dignified manner such as will inspire confidence and through the years create good-will. Coupled with this, officers must take on proper business which will not require auditors to dress the windows. Then let the publicity man put out straightforward, unvarnished truths which will be backed by the whole organization in its hourly, daily, monthly and yearly performance of little things accurately done—common, homely little things which, like the work of nature, take advantage of atoms and combine them into a great universe.



GLOBE

PREMIER MACDONALD

Disarmament

THE MacDonald plan for disarmament which President Roosevelt endorsed in a message to the 54 heads of foreign countries includes the following provisions:

1. The reduction of armies by one-third (Germany to have 200,000 men; France 400,000; Italy 250,000; Poland 200,000; Czechoslovakia 100,000; Russia 500,000; Yugoslavia 100,000; Spain 170,000; Hungary 60,000).
2. Restriction on the size of tanks to 16 tons.
3. Suspension of battleship and submarine construction over 2,000 tons until 1937.
4. The calling of a general naval conference in 1935.
5. The adherence of France and Italy to the London Naval Treaty.
6. The abolition of bombing from the air except for certain specified purposes in outlying regions.
7. A restriction on the fighting planes of England, France, the United States, Italy and Japan to 500 each.
8. The complete prohibition of gas, germ and flame warfare.
9. Consultation under the Kellogg Pact for the purpose of obtaining concerted action against an aggressor nation.
10. The reduction of the size of the calibre of mobile guns to 4.5 inches.
11. The creation of a permanent disarmament commission to supervise the agreement.
12. The abrogation of the military clauses of the peace treaties binding Germany, Austria, Hungary and Bulgaria.

The London Conference

(CONTINUED FROM PAGE 21)

Dr. Walter W. Stewart, charged with the duty of examining the whole question of Germany's international financial position and her capacity to pay reparations.

The chief immediate importance of the Basle Committee's report, which was made public on December 23, 1931, was that it virtually confirmed the contentions of the cancellationists and reductionists, particularly those in Germany. "The adjustment of all intergovernmental debts (reparations and other war debts) to the existing troubled situation of the world," declared the committee of experts, "is the only lasting step capable of reestablishing confidence, which is the very condition of economic stability and world peace. . . . We appeal to the Governments on whom responsibility for action rests to permit no delay in coming to decisions which will bring an amelioration of this grave crisis which rests so heavily on all alike."

Out of the meeting of the Basle Committee came the Lausanne Conference of last summer, which marked the formal termination of reparations; and out of the Lausanne Conference has now come the London Conference, sponsored, as were the conventions of 1920, 1922, 1927 and 1930, by the League of Nations.

THE AGENDA

AFTER two meetings, a preparatory committee of experts charged with drawing up a general program for the coming assembly, made public its annotated agenda last January 19. This agenda divides the work of the Conference into six broad divisions, as follows: (1) monetary and credit policy, (2) prices, (3) resumption of the movement of capital, (4) restrictions on trade, (5) tariff and treaty policies, and (6) organization of world production and trade.

It was the original hope of the experts gathered at Lausanne that their work would be followed by a general conference within the ensuing three months or so. That nearly a year will have passed before the meeting finally convenes this month has been due chiefly to the political situation in the United States. It was realized that any real progress in the solution of international trade and monetary problems rested upon a prior settlement of the debt question; and it was also realized that Mr. Roosevelt could take no action on this question until after inauguration.

As a result of the delay in calling the conference, the outlook for the latter has been modified in two very important respects. Had it taken place under the Hoover Administration, two of the most important questions at issue, tariffs and war debts, would have been debarred from discussion. Under the present Administration no taboo is placed upon the tariff question, and as this is written it seems very likely that the debt question, while it may not be settled at London, will certainly be thoroughly aired.

The second important modification in the agenda of the conference is the more problematical one growing out of the action of the Roosevelt Administration in abandoning the gold standard some six weeks ago.

Defenders of the Administration in the bitter domestic controversy that has raged around this action insist that the move was a shrewd stroke of strategy. It was calculated, they say, to break down the complacency of such nations as Great Britain and Japan, which up to that time enjoyed the advantage of being able to moor their currencies to the dollar, while at the same time profiting momentarily at least from depreciation of their own exchanges in terms of the gold currencies. Our departure from

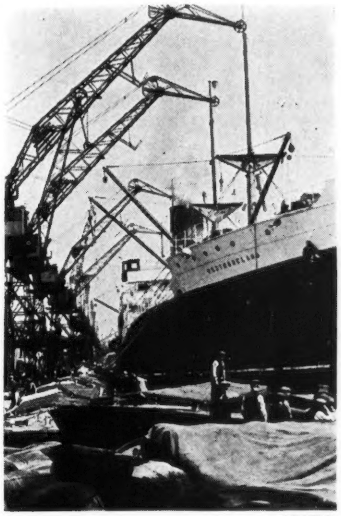
gold, it is argued, will make these countries more willing than before to return to a common international standard, an end which is accepted by the world in general as of unquestioned desirability.

The other side of the argument, however, is at least equally convincing in the mind of the writer. It is that, whatever we may seem to have gained by our strategic maneuver we have lost by the sacrifice of prestige involved in the process. We have, in other words, seriously impaired our claims to moral leadership in order to strengthen our bargaining position at the Conference, and this at a time when such leadership was of paramount world importance.

However, the merits or shortcomings of our monetary policy aside, the gold embargo means one thing most certainly: that is, that the emphasis of the conference, which may be said up to six weeks ago to have rested upon the question of trade barriers, has been unmistakably shifted to the monetary question. If it was true when the experts completed their agenda in January that "the restoration of a satisfactory international monetary standard is clearly of primary importance", then that is infinitely more the case today.

TO SET A PRECEDENT?

IT IS the history of international conferences that those have been most successful whose chief function was to ratify an already existing state of affairs. Thus, the Dawes Conference succeeded because its main result was to give world sanction to the German thesis that reparations payments could not be maintained at the levels established by the Treaty of Versailles. Similarly with Lausanne, which recognized a *fait accompli* in Germany's inability even to continue the Young Plan payments. Judged by these standards, as well as by the results of the conventions of Brussels, Genoa and Geneva, the outlook for the London Conference does not appear especially hopeful. But there are two considerations which may well enable it to establish historic precedent. One of these is the fact that the events of 1931 and since have impressed the world as never before of the need for concerted action in reversing the narrow nationalistic economic policies of the last decade; the other is that the very accentuation of the world's difficulties that has resulted from our own decision to participate in the war of currency depreciation may give to the conference that element that carried Lausanne to a successful conclusion—the courage and determination that are born of desperation.



GALLOWAY

"Most Favored Nation" Clause

IN this and succeeding months there will be worldwide discussion of tariff revision and trade reciprocity. It is not unlikely that the historic attitudes of nations toward tariff policy, and, more particularly, toward the "most favored nation" clause, will be radically altered.

The Preparatory Commission of the World Economic Conference says: "We consider that, in normal conditions, the unconditional and unrestricted most-favored-nation clause should form the basis of commercial relations between nations."

A clause of this kind appeared in a treaty of the United States as early as 1778, the one concluded in that year with France. Our traditional attitude, modified only in the last decade, has nevertheless been that such a clause should be applied to the imports of any country only when specific concessions are granted, not that it should be applied to all countries automatically upon being applied to any one, as the wording of the clause indicates.

A definite step forward was made in 1929 when the economic committee of the League of Nations formulated uniform principles for interpretation of the clause and a uniform wording. Parts of the clause that clearly express its spirit and intent follow:

> "The High Contracting Parties agree to grant each other unconditional most-favored nation treatment in all matters concerning Customs duties and subsidiary duties of every kind and in the method of levying duties, and, further, in all matters concerning the rules, formalities and charges imposed in connection with the clearing of goods through the Customs.
>
> ". . . natural or manufactured products having their origin in either of the contracting countries shall in no case be subject . . . to any duties, taxes or charges, other or higher, or to any rules or formalities other or more burdensome, than those to which the like products having their origin in any third country are or may hereafter be subject.
>
> "All the advantages, favours, privileges and immunities which have been or may hereafter be granted by either Contracting Party, in regard to the above-mentioned matters, to natural or manufactured products originating in any other country or consigned to the territories of any other country shall be accorded immediately and without compensation to the like products originating from the other Contracting Party or to products consigned to the territories of that Party."

Certain exceptions to application of the clause have always been and still are recognized—for example, trade that merely crosses the frontier between two neighboring countries and trade involved in customs unions.

KEYSTONE

SIR WALTER LAYTON

A British View of Inflation

SPEAKING before the Academy of Political Science recently in New York, Sir Walter T. Layton, editor of the London *Economist* and member of the Consultative Economic Committee of the League of Nations, said in part:

"The United States plays so great a rôle in the commodity markets of the world that an upward movement here should help more than anything else to start the ball rolling. But to secure a higher level of prices is not so simple as it sounds. Experience has shown that merely to create the means of payment whether in the form of bank money or currency has no magical effect.

"The present trouble is not that there is insufficient currency or credit in existence, but that it does not circulate. There are today in the hands of the public far more notes than in any period of the boom. Clearly if these notes circulated, there is enough currency in America to carry a much higher level of prices. But the level will only rise if someone spends. This may be either private individuals or the Government, and in both cases it may start a general upward movement. But, unless there is general confidence and conditions are ripe for a uniform improvement all along the line, one act of spending may give only a momentary lift which will quickly fade away, while the currency or bank money which started the movement returns to the banks.

"This uncertainty as to the effects of inflation exists whether it is achieved by expanding bank credit, printing paper money, or devaluing the dollar. It is presumed in some quarters that if the gold content of the dollar were reduced to one-half it would at once double prices. This is, I believe, an illusion. Such a measure would encounter the same difficulties as the other methods of inflation I have mentioned."

Our Foreign Trade

TARIFF, war debts, inflation effects, export credit insurance, trade with Latin America and the Orient were major topics before the 20th National Foreign Trade Convention April 26-7-8 at Pittsburgh. A few expressions:

"WE ARE in a transitional stage that promises substantial progress toward international understanding and settlement of major questions bearing upon the world economic situation. . . .

"The most pressing need at present is the establishment of sound currencies in all countries. . . .

"I feel I do not speak for myself alone when I say that our national trade interests should be safeguarded against any further exploitation of American generosity."—JAMES A. FARRELL, founder and chairman of the Council.

"WE HAVE followed, or, according to some thinkers, we have led, in the struggle for economic nationalism. We can see now what trouble it has caused the world and us along with the rest. Now we must sternly and courageously avoid the opposite danger. We must hold back our Government, if necessary, from swinging too far the other way.

"Europe will be delighted to see us cancel the debts and throw down our tariff walls, but that would not help us. I believe, and always have believed, that in time we should be compelled to readjust our debts; that in time we should be driven for our own good to a more reasonable tariff policy. But nothing of this should be sudden. Nothing should be done to test beautiful theories."—WILLIAM R. CASTLE, former Under-Secretary of State.

"THE negotiations at the London conference may cover several months, but it is my opinion that once it becomes generally known that the three great nations, England, France and the United States, are in accord about establishment of sound currency, channels of trade will clear rapidly—possibly even before negotiations are finished."—EUGENE P. THOMAS, president of the National Foreign Trade Council.

"ANY modification of debts due the United States Government should definitely provide for such treatment of our foreign trade by the debtor country as will assure access of American goods to its markets on fair competitive terms."—From a resolution adopted.

"THE only way that a proper relationship between agricultural prices and industrial prices can be restored is through reestablishment of industry, meaning the reemployment of men whose activities will then provide them with buying power."—FRED I. KENT, foreign exchange director.

"HE (the Spanish American) is as different from the European Spaniard as the American is from the Britisher.

"Good roads and airplane lines are opening the country up for development as never before and I think America can profit most there. Particularly is there need for more study of the language and customs in our schools."—COL. HENRY BRECKENRIDGE, former Assistant Secretary of War.

"DURING 1932 our exports to the Far East amounted to 20 per cent of our total—its largest ratio in history—and its decrease is smallest of any zone."—RAYMOND MACKAY, a Far Eastern expert of the State Department.

Events and Information

WITHIN THE ASSOCIATION

GALLOWAY

Parasols and plaster statuary. The Columbian Exposition in 1893, when the 19th Annual Convention of the American Bankers Association was held in Chicago

Conventions

FRANCIS H. SISSON, President of the American Bankers Association, has announced that the 59th Annual Convention of the Association will be held in Chicago September 4 to 7 inclusive. Convention headquarters will be at the Stevens Hotel.

The annual convention of the American Institute of Banking will be held in Chicago June 12 to 16, with headquarters at the Palmer House.

CHICAGO

WHEN the 59th Annual Convention of the Association is called to order, it will be the sixth time that Chicago bankers will have been hosts to this organization. In 1885, 1893 (the year of the World's Columbian Exposition), 1909, 1918 and 1924 the Association has met in that city—in and out of depression times and once during the war.

The entire convention—committee meetings, Division meetings and general sessions—will be held at the Stevens Hotel which, with its 3,000 rooms, is adequate to house all delegates. In accordance with the specific request of the Association, the Chicago clearinghouse will have no entertainment features specially provided. Arrangements will be made for golf privileges at some of the clubs for those who may wish to play, and a tournament will be staged on Friday after the close of the meetings in order that the trophies awarded each year may be played for by those who wish to enter the contests.

It is felt that, in the Century of Progress Exposition, Chicago has already provided an entertainment which is an opportunity of a lifetime. Perhaps there has been nothing in this country comparable to it since the Columbian Exposition in that city just 40 years ago.

The importance and the seriousness of banking problems at this time, it is believed, will bring a large number of bankers to the Convention, and the centralized location for the meetings will also stimulate attendance from all sections of the country. Details regarding programs and speakers will appear in later issues of the JOURNAL.

A. I. B.

THIS month the Institute Convention is expected to bring 2,500 visiting bankers to Chicago, and it will be the first large national gathering to meet there following the opening of the Exposition. In fact, "Bankers' Day" on June 12 will be Chicago's greeting to the visitors.

The annual meeting of the executive council of the Institute will be held on the afternoon of June 12, and the first general session will be on the morning of June 13. Beginning with luncheon on the second day, there will be eight departmental conferences devoted to these topics: audits and accounting, bank administration, business development and advertising, credits, deposit functions, investments and investment banking, savings banking, and trust functions. Other conferences will cover the educational work of the Institute, publicity, public speaking, the administration of chapters, debate, public education, and the woman's place in banking. On the evening of June 13 the annual debate and public speaking contest will be held.

The closing day will be devoted to the election of national officers, industrial tours, and at night the final ball preceding the departure of the delegates.

The Institute consists of 234 chapters in cities throughout the country and has a membership totaling 57,718. In spite of existing conditions, 30,816 members were enrolled this year in the Institute study courses conducted by the various chapters.

Membership

"Before we forget it, we wish to advise that membership in the American Bankers Association is decidedly worth your while. We frequently call upon the A. B. A. for information and their assistance is always given promptly. This great organization is always quietly working in your behalf, and its greatest accomplishments for you are often unheralded and if so are taken for granted. Every bank in the state should be a member."—Quoted from the *Arkansas Banker* in which it appeared under the title "Our Appreciation of the A. B. A."

Transit Numbers

THE American Bankers Association Transit List of member and non-member banks will be issued six months earlier this year, providing more promptly a complete post-holiday listing of all banks now receiving deposits and paying checks. A large number of changes in the numerical system have taken place since the last volume appeared in October, 1932.

In the new publication the principal cities will be shown by themselves; then they will be included in a nationwide compilation first arranged alphabetically by states, cities within states and banks within cities, and then cross-indexed by transit numbers in numerical order. Given any bank name or transit number, users will be able to determine quickly whether or not the bank is re-opened, and also its present title and its correct A. B. A. check number.

Preliminary lists as of April 24 indicate that the new key book will include at least 13,874 separate unrestricted institutions, 1,128 open under conservator and 1,921 under restrictions, with an additional listing of 1,411 branch offices hav- (CONTINUED ON PAGE 69)

Banking in Fascist Italy

PAUL EINZIG, foreign editor of the *Financial News* of London, believes that one of the most interesting aspects of Fascism as developed by Premier Mussolini is its influence upon the banking system. In an article in a recent issue of the *Journal of the Canadian Bankers Association*, he said that, while the leading banks in Italy have rendered valuable assistance in the development of industries, the government has considered it necessary to establish a number of financial institutions. The task of the latter is to supplement the activities of the existing banks, and the number of these state and semi-state institutions and their relative importance have increased considerably. As to what some of them are, and the special purposes they serve, he said:

"The Istituto di Credito per il Lavoro Italiano all'Estero has been created for the support of financing Italian economic expansion in the colonies and abroad. The Consorzio di Credito per le Opere Publiche has been established for financing public utility undertakings. The Istituto di Credito per le Imprese di Pubblica Utilita has been established for similar purposes. Another specialized semi-official bank is the Istituto per il Credito Navale.

"A second group of official financial institutions includes those created for facilitating the work of the existing banks and their industrial and commercial customers. There is the Istituto Mobiliare Italiana, and the recently created Istituto per la Ricostruzione Industriale. Their task is to relieve banks and other firms of their security holdings and frozen assets which would otherwise interfere with their mobility and liquidity, and to finance enterprise which could not obtain adequate facilities from the commercial banks.

POSTAL SAVINGS

"A THIRD group of government-controlled banks includes the various types of savings banks, under direct or indirect government control. The most important among them is the Post Office Savings Bank which has become a strong rival of commercial banks as a collector of deposits."

In addition, Mr. Einzig stated, "The Italian government exerts strong influence upon the banking system through the intermediary of the Corporation of Banks. . . . It is far more than a professional association which prescribes rules of etiquette and passes resolutions for guidance of members."

Pointing out that the influence of the authorities upon banks in Italy is not confined to the enforcement of technical regulations and that it extends over the sphere of fundamental banking policy, he continued, "although banks in Italy are not nationalized, in practice the government has a power over them which could not be greater if they were nationalized. This does not mean that their attitude towards individual customers and individual transactions is subject to government interference. . . . Government intervention in Fascist Italy is based on much broader principles." Also, "by the fact that the resources of the banks are used for financing public works, the deposits in leading banks have become, in fact if not in law, government-guaranteed."

KEYSTONE

George N. Peek of Moline, Illinois, who is to direct the farm relief program of the administration, talks with Secretary of Agriculture Henry Wallace, who will be his immediate superior

Recently—

(CONTINUED FROM PAGE 9)

lems looming at the London Economic Conference.

Two days later they were joined by former Premier Herriot of France, and on April 25 by R. B. Bennett, Premier of Canada.

On April 26 President Roosevelt and Mr. MacDonald issued a joint communiqué in which they expressed agreement on a program for trade revival.

France, Poland and the Little Entente—Czechoslovakia, Rumania and Yugoslavia—joined forces on April 24 in signing an agreement opposing the revision of the peace treaties. This is at variance with the four-power European conference suggested by Premier Mussolini of Italy.

Guido Jung, Italian Minister of Finance, arrived at Washington May 2 to confer with the President; and three days later Dr. Hjalmar Schacht, president of the Reichsbank, visited the White House.

A partial armistice in the world economic war was declared on May 12 when eight nations, including the United States, pledged themselves to a tariff truce until the convening of the World Conference on June 12.

RECOVERY LEGISLATION

ON April 28 the House passed the home mortgage aid bill, 383-4. It sets up a $2,000,000,000 corporation which would exchange Government securities for mortgages on homes valued at not more than $15,000.

Secretary Swanson of the Navy revealed on May 1 that provision for building 30 warships at a cost of $46,000,000 was to be part of the public works program.

The Senate on the same day passed the House bill for the distribution of $500,000,000 in Federal funds for state unemployment relief.

For the seventh time since the Government built the wartime power and nitrate plant at Muscle Shoals, the Senate on May 3 passed the Norris bill for its operation by the Government. The new provisions include, however, navigation and flood control development of the whole Tennessee Valley.

Broadened to provide retroactive repeal of the recapture provision of the Interstate Commerce Act, a more flexible rule of rate-making, and extension of the jurisdiction of the Interstate Commerce Commission to include holding companies, the administration's program for the railroads was submitted May 4.

On May 7 President Roosevelt reviewed the first two months' activities of the administration in a nationwide radio broadcast.

On May 11 it was announced that the national industrial recovery bill, combining a gigantic plan for Federal control of industry and a $3,300,000,000 public works program, coupled with either a manufacturers' sales tax or a "breakfast table levy" to amortize bonds for the latter, was essentially completed.

BANKING

ON May 8 the Federal Securities Bill passed the Senate. It was amended, at the suggestion of Senator Johnson, to provide for the establishment of a Federal corporation to represent holders of defaulted foreign securities.

Bills to correct banking abuses and to guarantee bank deposits were introduced in Congress on May 10 by Senator Glass and Representative Steagall, despite a statement by the President that he was not committed to the passage of banking legislation at this session.

Eugene R. Black, Governor of the Atlanta Reserve Bank, was named Governor of the Federal Reserve Board on May 10, to succeed Eugene Meyer, Jr., resigned.

DOMESTIC

MARTIAL law was declared at Lemars, Ia., by Governor Herring as a result of an attack on district court Judge C. C. Bradley by farmers who demanded that he refuse to sign foreclosure papers.

The Chicago & Eastern Illinois Railroad invoked the Federal Bankruptcy law on April 18, officials announcing that they had no means of meeting the May 1 obligations.

March wholesale prices rose slightly over those of February, according to the Bureau of Labor Statistics. The March index was 60.2, against 59.8 in February. Payrolls in March, however, felt the effects of the banking holiday. They were off 8.2 per cent.

The National Surety Company was taken over for reorganization on April 29 by George S. Van Schaick, superintendent of insurance in New York State. A new corporation, to be known as the National Surety Corporation, is taking over its affairs.

The new Commodity Exchange, Inc., commenced operations in New York on May 1. It represents a merger of the Rubber Exchange of New York, the National Metal Exchange, the National Raw Silk Exchange, and the New York Hide Exchange.

The Government crop report as of May 1 shows probable production of winter wheat of 337,485,000 bushels, the smallest since 1904, and a condition of 66.7, the lowest for this time of year in the history of the country.

GALLOWAY

How to Organize A Credit Bureau

AS a means of building up safeguards against possible losses through duplicate borrowings and extensions of credit based on inadequate information, the credit bureau has repeatedly proved its value during recent years, yet there still exists broad opportunity for the useful application of the idea.

An efficient credit bureau involves but little in the way of organization and expense, violates none of the ethics of the banking profession and supplies absolutely necessary protection.

The first necessary step is the selection of a credit bureau committee, and the election of a secretary-manager whose qualifications include discretion and accuracy, and who can devote a small share of his spare time to this special work. A carefully selected bank clerk, public accountant or county official is usually chosen for this purpose.

Each participating bank then makes an inventory of its borrowers, and files with the secretary the names of all of them, both direct and endorsers. These cards contain only the names and addresses of the borrowers, their occupations and a symbol to denote the reporting bank. White cards are generally used for direct, blue for indirect borrowers. The amount of the loan is *not* given.

These cards are then filed alphabetically, so that any duplicate or multiple borrower is readily brought to light. A special file is made of this group, and it becomes the job of the secretary then to ascertain from interested banks the amounts involved. Once this is ascertained, he reports to these banks the aggregate loans and the number of banks from whom the borrower has secured advances, but *does not* report the names of the creditor banks nor the extent of the loan from each. Only upon a demand for further information and with the consent of all interested banks is this additional information furnished.

To keep records constantly up to date, new borrowers and loans paid are reported at regular intervals daily, weekly, monthly or quarterly, as agreed upon, and the new cards added to the original list, with new duplicate borrowers detected and added to their special file. As loans are repaid, this process is reversed.

This system has as its advantages the absolute protection of the interests of the individual bank, the complete safeguarding of the single borrower and the building of a necessary bulwark between the bank and the man who borrows "not wisely but too well."

Frank W. Simmonds, Secretary of the Bank Management Commission of the American Bankers Association, an authority on this whole subject, states that experience over a period of years shows that an active credit bureau, properly organized, is not only a cure for the evils of duplicate borrowings, but an earnest promoter of confidence and cooperation with resulting benefits to every one concerned—banker, depositor and general public alike.

Bonds

(CONTINUED FROM PAGE 5)

view taken of the widening circle of currency depreciation, Germany, according to the general impression, seemed determined to delay no longer in giving notice of a reduction in the service charges on her foreign debt. Unless signs infallible in the past are suddenly not to be trusted, Germany is preparing to seek wholesale easement in the service on her foreign obligations. The repayment of the remaining $70,000,000 of the central bank credit by the Reichsbank, it can confidently be stated, was a move calculated to place Germany's gold and foreign exchange resources in a clearer and more unfavorable light.

The gold and gold exchange cover of the Reichsbank has fallen to less than 15 per cent of the note issue, and with world trade still on the wane the outlook for an enrichment of Germany's gold holdings is not bright. Germany's intention is interpreted here as being to pay on the external debts only so much in service as accrues through the trade balance. That means that a graphic mechanism will be set up showing for the first time the relation between the amount of goods a nation sells abroad and the amount of its foreign purchases and allotments to foreign debt service.

GERMANY'S EFFORT

THE experience of German bonds after the United States withdrew gold from the support of the dollar is the best example of what chaotic currencies mean to the world. Of the three principal trading countries, the United States, Great Britain and Germany, only the last named is still trying to maintain its exchange at gold parity. Thus it is at a disadvantage in the competition for such world trade as remains to be had. But French bonds, too, have taken a steep dip, and when so well backed a security breaks badly it is sign enough of the state into which the foreign bond group has fallen.

The gold clause began to appear with some frequency in short and long term loan documents in this country during the Civil War, when greenbacks were being issued and the kind of money a debt would be paid in became a question of no little importance. Gold clauses became even more valuable and common while William Jennings Bryan was advocating diluting the currency by free coinage of silver, and finally, in 1910, the United States Government itself became won over to the use of a promise to pay in gold. In that year Congress passed an act providing that any bonds and certificates of indebtedness issued after February 4, 1910, should be serviced and redeemed in United States gold coin of the standard value as of February 4, 1910. Of all the obligations sold by the Treasury, only the discount bills are without the gold clause; nevertheless, the discount bill offering circulars have stated that they are payable in gold coin of the present standard.

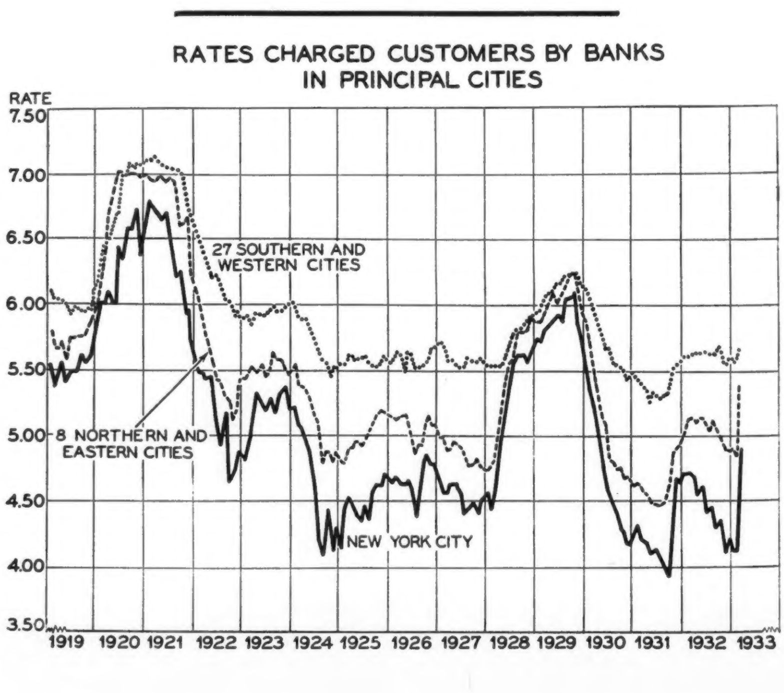
Over the course of years the amount of debt contracts that have the gold clause has grown to large proportions. It includes, as aforesaid, the $22,000,000,000 public debt of the United States Government, nearly all of the bonded debt of corporations, all Federal land bank and joint stock land bank bonds, about half of the state and municipal debt, all of the war debts owing to this country and most of the publicly held foreign debt. In fact, the best available estimates are that between 40 and 45 per cent of the $175,000,000,000 of domestic dollar indebtedness has the gold clause.

THE LEGAL ASPECT

THESE figures suffice to prove the importance of the gold clause in the United States. Are these gold clauses enforceable? The point has never been specifically tested in the courts of this country. The nearest approach to a court test of the question came in 1868 in the decision of the Supreme Court of the United States in the case of Bronson v. Rodes. In this decision the court held that greenback currency could not be tendered in settlement of a contract payable in gold. Two years later the court ruled that, in compliance with the legal tender act, greenbacks must be accepted in payment of private debts. The court did not then, however, and has not since passed on the question whether Congress can require acceptance of paper (that is, non-gold) money in satisfaction of contracts calling for payment in gold.

Those who have searched deeply into the legal aspects of the gold clause question assert that a partial precedent for the forthcoming test of the enforceability of the gold clause in this country is to be found in a decision handed down so recently as March 17, 1933, by Mr. Justice Farwell in the English Court of Appeals. The case concerned the bonds of a Belgian company, the Société Intercommunale Belge d'Electricité, sold in England in 1928. They contained a provision for payment in "sterling in gold coin of the United Kingdom of or equal to the standard of weight and fineness existing on the first day of September, 1928." The court held that the contract did not contemplate a settlement in bullion, but, rather, in money, and that the delivery of paper sterling was satisfactory. It is worth noting, however, that a similar case was decided differently by the Permanent Court of International Justice at The Hague.

RATES CHARGED CUSTOMERS BY BANKS IN PRINCIPAL CITIES



KEYSTONE

Buckingham Palace, London

Three Attitudes Toward Gold

ON the eve of the World Economic Conference speeches on appropriate subjects are being made with varying degrees of fervor. But seldom does oratory on money questions exhibit the full-blown, variegated beauty of the speech which the Hon. Samuel B. Ruggles made in New York at a public banquet to the Chinese Embassy. This was in 1868. The Hon. Mr. Ruggles had been the delegate from the United States to the International Monetary Conference at Paris in 1867, which marked a definite move toward making gold the single world standard.

The final toast at the banquet was: "One Uniform Metallic Currency for the entire World." Mr. Ruggles:

"This august personage—this earthly 'king of kings', is MONEY! the undisputed Monarch of the World . . . the potent mainspring of all the machinery of human society, unceasingly and untiringly regulating and guiding the movement of all the civilization on the globe—and, above all, as the greatest of earthly divinities, the object of profoundest worship by a vast majority of the human race, especially in this, our goodly city."

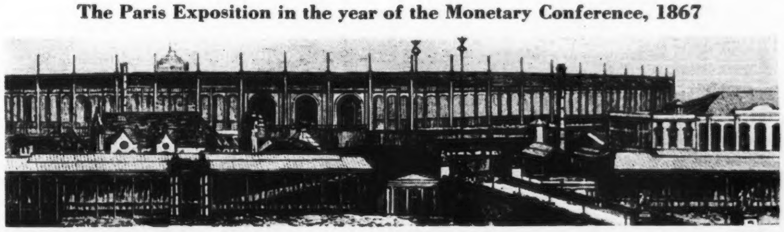
But in the next quarter of a century opinion veered somewhat.

An Englishman, Prof. H. S. Foxwell of Cambridge, typifies the sentiment in favor of silver at the International Monetary Conference of 1892 held in Brussels, which accomplished little or nothing. He speaks with longing for the times prior to adoption of the single gold standard: "For all practical purposes we had one international money, and yet we were able to rest our trade on the broad basis of both the precious metals. It seems almost incredible that this fortunate and historical advantage should have been deliberately wasted. But so it was."

The caution with which statesmen are approaching the June meeting in London is exemplified in a paragraph from a joint statement issued by President Roosevelt and Premier MacDonald:

"We must, when circumstances permit, reestablish an international monetary standard which will operate successfully without depressing prices and avoid the repetition of the mistakes which have produced such disastrous results in the past."

The Paris Exposition in the year of the Monetary Conference, 1867



KEYSTONE

How to Build a Bank Budget

THE goal of bank management is adequate profits, and the goal can only be reached by planning in advance, with every possible degree of accuracy, the probable income on the one hand, and necessary expenses, including interest, on the other. Once these items are determined, a budget system, worked out on a monthly basis, is almost essential to assure a constant balance between income and outgo and to make possible the immediate application of corrective measures in case of need.

Every bank can determine in advance, not to the penny but within narrow limits, what its operating expenses are to be for any annual period. It knows from present deposits and past experience how much it will have to pay out in interest; its payroll and building expenses are comparatively fixed items; and the cost of bonds, audits, examinations, insurance, postage, etc. are also items subject to constant control.

Other items are more subject to fluctuation, such as stationery and supplies, legal expenses, dues and subscriptions, and advertising, but proper allowances can be made for all of these, first by determining the inescapable expenses and then by keeping expenditures for all variables within a certain maximum to be exceeded only under emergency conditions.

Income, especially during a period of economic stress, is subject to broader possibilities of error, but here, too, a careful analysis of past experience plus a searching preliminary study of existing loans, investments and all other possible sources of income will supply the essential facts.

A workable budget should not be broken down into so many elements as to involve complicated bookkeeping expense, but it should be in sufficient detail to enable the executive to spot immediately any weakness or error. Here are the details which are recommended as essential by the Bank Management Commission of the American Bankers Association:

Budget for Month of ....

INCOME

Interest Income
- Interest on Demand Loans
- Discount on Bill Purchases, etc.
- Interest on Other Loans
- Interest on Bonds and Securities
- Dividends on Stocks
- Interest on Mortgages
- Interest on Bank Balances
- Interest from Other Sources
  - Total Interest Income

Interest Paid
- On Bank Balances
- On Demand Deposits
- On Special Demand Deposits
- On Time Deposits
- On Special Time Deposits
- On Borrowed Money
  - Total Interest Paid

Net Interest Income

Other Income
- Collection and Exchange
- Service Charges on Accounts
- Service Charges on Security Transactions
- Service Charges—All Other
- Safe Deposit Rentals
- Building Rentals
- Trust Fees and Commissions
- Other Income
- Other Real Estate Rentals
  - Total Other Income

Gross Banking Income

Other Additions
- Profit on Security Sales
- Recoveries on Loans, etc.
- Over and Short Account
  - Total Other Additions

Net Profit for Period

Dividend Requirements

EXPENSE

Salaries
- Officers' Salaries
- Clerical Salaries
- Directors' and Committee Fees
  - Totals

Advertising

Operating
- Stationery, Printing & Supplies
- Insurance and Bonds
- Dues and Subscriptions
- Postage
- Audits and Examinations
- Travel Expense
- Legal Expense
- Telephone & Telegraph
- Other Expenses
  - Totals

Occupancy
- Rent
- Light, Heat and Water
- Building Maintenance
- Depreciation on Building
- Depreciation on Furniture and Fixtures
- Depreciation on Equipment
- Depreciation on Vault
- Repairs and Maintenance
  - Totals
  - Total Expenses

Net Banking Income

Other Deductions
- Taxes, Other than Real Estate
- Other Real Estate Expenses and Taxes
- Losses on Loans
- Losses on Security Sales
- Other Losses
  - Total Other Deductions

Events and Information

(CONTINUED FROM PAGE 62)

ing separate key numbers—a total of 18,334. Changes and additions were being made up to the final press date on May 20, and the new volume will be issued on or about June 10. Orders for copies are now being filled by Rand McNally & Company of Chicago, authorized by the Association to publish the book.

Travel Cheques

THE arrangement with the American Bankers Association under which the Bankers Trust Company of New York issued and distributed A. B. A. Travel Cheques was discontinued by action of the Executive Council of the American Bankers Association, April 11, 1933.

Action was based on the fact that the main condition upon which the issuance of these cheques was begun in 1909 had changed, since the common carriers engaged in the transportation of currency are not now in the travel cheque business and are no longer operating as bankers.

The demands of the traveling public are now fully met by a number of individual bank members of the American Bankers Association and other organizations which are issuing their own travel cheques. The detail of handling the cheques was in the hands of the trust company. Their issuance was no part of the actual work of the Association itself. The Bankers Trust Company has at all times cooperated helpfully with the American Bankers Association and its members, and this action is solely a matter of business agreement.

The Bankers Trust Company will honor all properly issued and properly negotiated A. B. A. Cheques and authorizes any bank to encash such cheques and clear them for reimbursement through the customary banking channels.

The following banks, trust companies and others now issuing genuine forms of travel cheques in dollar denominations include: American Express Company, Bank of America National Trust and Savings Association, Bank of Montreal, Bank of Toronto, Banca Commerciale Italiana, Canadian Bank of Commerce, Canadian Pacific Express Company, Thomas Cook and Son (Bankers) Ltd., Dominion Bank (Canada), First National Bank of Boston, First National Bank of Chicago, International Mercantile Marine Company, Mellon National Bank of Pittsburgh, National City Bank of New York, Royal Bank of Canada.

The reference to "express companies" in earlier announcements of the discontinuance of A. B. A. Travel Cheques, which appeared under date of April 11, did not apply, of course, to the American Express Company.

Books

THE detailed work necessary to audit adequately a bank's transactions from day to day with special precautions necessary for the prevention of fraud is presented in a booklet on internal bank auditing procedure, which has just been issued by the Bank Management Commission of the Association as Booklet No. 12 of its Commercial Bank Management series.

The procedure outlined includes the periodic verification of assets and liabilities at irregular intervals, and independent of the usual bank examinations; a day-to-day verification of changes in the various assets, liabilities, income and expense accounts, proving independently that all general ledger accounts are being properly accumulated by legitimate daily transactions; verification of income and expense accounts; an adequate system of internal check where one position is used as a check on other positions; and provision not only for an adequate check by the auditing department of other bank employees, but also on the internal auditor himself and his department.

A copy of this booklet has been sent to each member of the Association. Additional copies are 25 cents each.

TRUST YEAR BOOK

THE Trust Division has issued its first annual Year Book. It includes, for the first time in one compact volume of 488 pages, the proceedings of each of the four annual trust conferences held during 1932-33 and of the annual meeting of the Trust Division, which was held in Los Angeles last October.

There are 55 addresses by leading trust men and others having long experience in their respective fields. Current problems relating to trust investments, advertising and solicitation, public relations, trust administrative policies and procedure, executors' and trustees' powers, the taxation of estates and trusts and the administration of corporate trusts are discussed with the utmost frankness.

Profit Control Through Accrual Accounting

IN unsettled times like the present, the progressive bank executive must have some means of watching, from day to day, the actual progress which his institution is making, while safeguarding against distortions due to abnormal receipts one day and heavy disbursements another.

The budget makes provision for all normal expenses and revenues, but needs supplementing by other aids for bringing into the light of day failures to meet interest charges, depreciation on investments and other factors which, if neglected for any period of time, inevitably result in an excess of slow or frozen assets.

Accrual accounting affords the soundest solution of the problem, and the Arkansas Bankers Association has, in recent months, developed a simple method which brings the benefits of this system within the reach of even the smallest bank.

OPERATION

INSTALLATION of this system involves the keeping of only three additional books—a loans and discounts accrual register, a bonds accrual register and an accrual ledger. The first may be arranged in three sections, one for interest-from-date loans, another for loans discounted and the third for non-accrual loans. Balances drawing interest under each respective rate may be set up, and debit and credit changes of totals made in the daily balances. Interest is figured on the balance under each rate, and total interest is entered in the proper accounts in sections 1 and 2 and carried daily to the accrual ledger. The third section is for uncollectible loans and such others as are not classifiable in the other sections.

The bond register follows the same general principle, with interest figured daily and carried to the accrual ledger. When bonds are bought, the accrued interest paid by the bank becomes interest accrued receivable for the current period. Debits and credits for bond changes are made when they are bought or sold and the daily interest figures immediately reflect the change.

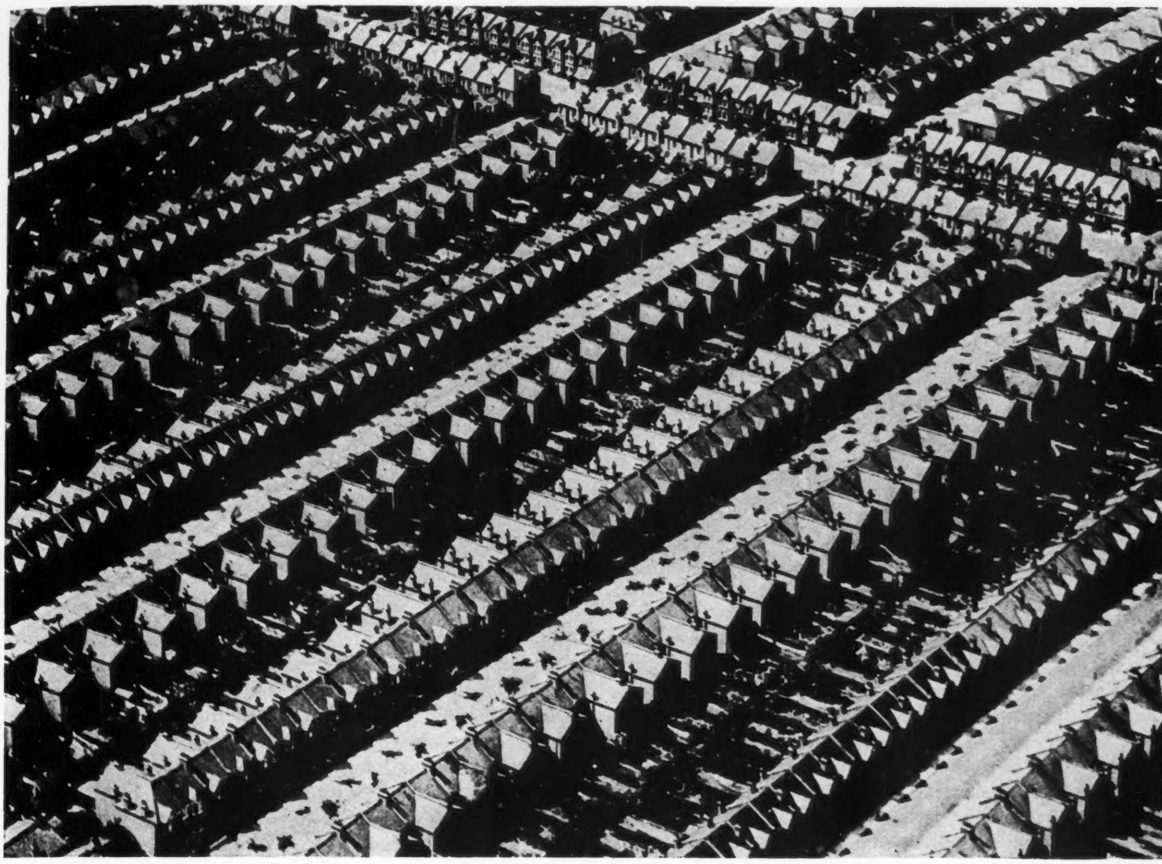
Sheets in the general accrual ledger provide for each item of income and expense. These sheets have right and left sections, each with a debit and credit balance column. The left section is for income or expense accruals, the right for the corresponding asset or liability account. Only daily accruals are posted in the left side, while on the right, accruals plus actual receipts and payments are posted to show the variations.

Such a daily summary reflects at once trends of decreasing or increasing net profits; supplies a means for locating weaknesses instantly, and gives management a true day-by-day picture of the bank's earning position. Large amounts of non-accrual investments or loans on which interest is in default are also brought into prominence.

ITEMS TO BE SET UP

IN the installation of an accrual system where a cash system has been in use, all items of income "earned but not collected" and "collected but not earned" as well as "expense accrued" and "expense prepaid" must be set up. Thus accrued interest, accrued taxes, service charges earned, trust fees earned, exchange charges, etc., must be entered on the accrual ledger on a given day, while in the same way, discount collected but not earned must be figured to this same day and entered on the accrual ledger. The same policy must be followed in the loan and discount and bond registers. Accrued salaries, savings account interest, taxes and other incurred expenses must be calculated on the same basis and entered in the accrual ledger. From the time the new system goes into effect, changes in the assets - account - earning - interest and changes in known expenses and other income must be reflected, and both earnings and expense must be calculated on a per diem basis. Past experience, plus cumulative data, supply the necessary guidance in estimating float, service charges, exchange collected, fees, commissions, rentals and every other source of income, subject to the necessary adjustments at the end of the month, while items of outgo can be handled in the same way. Items purchased for consumption over a period of weeks are distributed over the estimated period of use, reserves for losses on a percentage basis and dividend reserves in accordance with the rates paid. Interest on borrowed money is spread over the life of the loan; rent and other occupancy charges, in keeping with lease conditions.

The time to operate a successful accrual system is much less than would appear at first glance, and, if kept subsidiary to general books and for the guidance of management, should more than justify its cost in any bank.



GALLOWAY

A HOUSING PROJECT IN TOOTING, LONDON, ENGLAND

Homes and Mortgage Relief

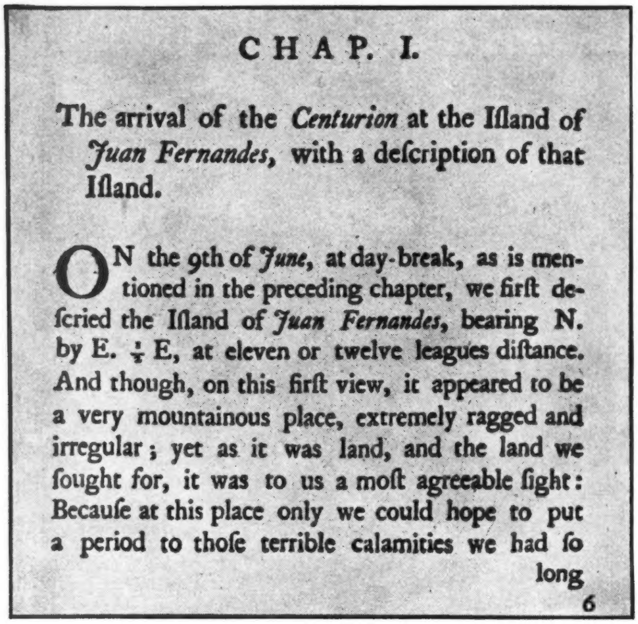
TOOTING, London, has its counterpart in hundreds of American cities and towns where housing has been a problem since the War.

▲

In the United States, home construction is entering a new phase with the passage of mortgage-relief legislation and the proposals for a nationwide public-works program.

▲

Real estate, in all its complicated banking aspects, is constructively treated in the American Bankers Association Journal.



CHAP. I.

The arrival of the *Centurion* at the Iſland of *Juan Fernandes*, with a deſcription of that Iſland.

ON the 9th of *June*, at day-break, as is mentioned in the preceding chapter, we firſt deſcried the Iſland of *Juan Fernandes*, bearing N. by E. ½ E, at eleven or twelve leagues diſtance. And though, on this firſt view, it appeared to be a very mountainous place, extremely ragged and irregular; yet as it was land, and the land we ſought for, it was to us a moſt agreeable ſight: Becauſe at this place only we could hope to put a period to thoſe terrible calamities we had ſo long

6

Trips—

SUMMERTIME brings vacationtime, and whether your customers prefer seeing America first or traveling abroad, they can have just the kind of vacation they want within the limits of their budgets. This year more people need vacation trips to restore frayed nerves and sapped vitality resulting from the strenuous months just past. They need rest and change, new points of view and the chance to recuperate and re-condition themselves for the months ahead. By careful planning—and in this bankers help—they can arrange vacations best suited to their individual means and requirements. And costs, in many cases, are much lower than in former years.

As an aid to bankers in advising on travel plans, the JOURNAL summarizes here some of the best offerings of transportation lines, tourist agencies and travel bureaus, with special attention to economical trips in keeping with the times. The kinds of tours available are indicated, sample tours are outlined and general cost data given. More detailed information is available, of course, at the offices and in the literature of the various agencies, and railroad and steamship lines.

GALLOWAY

Taking a vacation means, or should mean, getting "out of the rut" and temporarily changing one's point of view. Travel is always broadening, but the kind of a trip to take depends upon the age, physical condition, tastes and financial resources of the individual. For some temperaments the ideal vacation is a genuine "loafing" period—to the lakes, mountains, seashore, or aboard ship—for resting, reading, sleeping, etc. Others, more active, prefer roughing it—and there is no end of things to do in the great outdoors—or planned tours either here or abroad for sightseeing and the educational advantages offered. The main thing is to do something different from what they have been doing throughout the year.

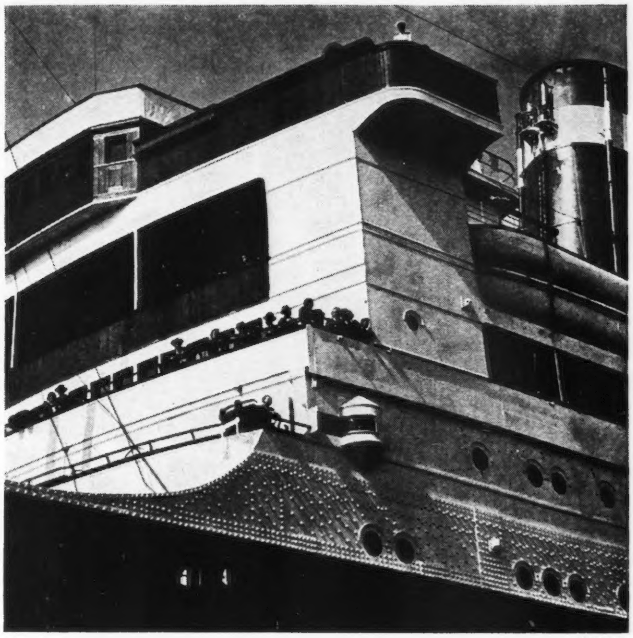
Next, do they prefer traveling independently, or on conducted tours? If they wish to be relieved of the details of schedules, reservations, tickets, etc., and are willing to live up to a strict and complete program—or are not confident of their linguistic ability in foreign lands—they may prefer escorted tours under the guidance of experienced travelers. Carefree travel adds to the pleasure of the trip, and in many cases the benefits of the facilities of travel organizations are well worth the extra cost.

COSTS

IT goes without saying that, in most cases this year, people must cut the coat according to the cloth in determining vacation expenses. Budgets are necessary. The majority will probably set aside an arbitrary sum and then figure what they can do for that amount. Others will decide what to do and where to go and then estimate, with liberal provision for extras and emergencies, what it will cost to follow the program decided upon. In all cases travel cheques and letters of credit are preliminaries for the banker to handle.

And now for the tours:

If the Information You Require for Customers Is Not in This Article, the JOURNAL Will Obtain It for You



GALLOWAY

SEEING AMERICA FIRST

IN summer New England—in the mountains of Vermont and New Hampshire, in the woods and on the lakes of Maine, and on the seashore of Connecticut, Rhode Island, Massachusetts and Maine—draws its thousands of visitors. New York State has its Adirondacks, its Catskills, the Finger Lakes, the Thousand Islands and Niagara Falls. The Great Lakes afford boat trips, and this year the Century of Progress Exposition at Chicago is to be a great center of attraction.

To a steadily increasing extent, the national parks are becoming great meccas for vacationists. Better roads are making them more accessible, and every year more people are becoming familiar with the grandeur and beauty of Glacier, Ranier, the Yellowstone, Yosemite, Grand Canyon, Zion, Bryce Canyon, Estes and many others. Train service, hotels and motor transportation within the parks have taken away the hardships that formerly attended visits to these scenic wonders.

California attracts—both in summer and in winter—and so does Florida. Asheville, North Carolina, and the Blue Ridge Mountains are by no means the only points in the South that are really comfortable at this season.

Only in recent years has the opening of an automobile highway into Zion Canyon and the building of a hotel there made it possible for tourists to see its colored rock formations and almost perpendicular mountains. Erosion, the greatest of sculptors, has created masterpieces in southern Utah and northern Arizona.

Many eastern families spend their summer vacations at "dude" ranches, riding in western cowboy fashion, hiking, fishing and hunting in the great outdoors. Many of these ranches are in Wyoming near the mountains. The rates run from $21 to $60 a week—the average being perhaps $45 or $50 a week, according to accommodations.

CANADA

FROM the maritime provinces of Nova Scotia and New Brunswick, along the St. Lawrence, past the Saguenay, through historic Quebec and Montreal, the highlands and lakes of Ontario, to Banff and Lake Louise in the Canadian Rockies, and Victoria and Vancouver on the Pacific Coast—the summer vacation possibilities of Canada are almost inexhaustible.

The Canadian Pacific Railway and the Canadian National and other railroads of the Dominion make these places accessible for thousands of American tourists.

EUROPE

THE fascination and charm of the old countries is ever new to Americans, and a trip to Europe for most of us is the last word in vacation delight. It is something to think about and to talk about for years to come.

To go to Rome in this Holy Year, to stand near the Acropolis at Athens, to view the beauties of the Rhine, to see Paris, to explore England with its thousands of reminders of our Anglo-Saxon heritage, to

GALLOWAY

GALLOWAY

New

The Century of Progress Exposition will draw thousands of visitors. Above, the Chicago business district at night, with the fair grounds at the upper left

visit the Killarney Lakes of the Emerald Isle—these are worthwhile vacation experiences that will be remembered for years to come.

But now for the more practical matter of specific trips at home and abroad, and what they cost in this day of depreciated currency. It is possible here to outline only a few typical tours, but from these brief descriptions ideas may be obtained of what can be done on the vacation budget this year.

Typical American and Canadian Tours

AROUND and Across America Tour. Through the Panama Canal, via Havana, to California, the Pacific Northwest, Glacier National Park and the Chicago World's Fair. August 5 to 27. Sail from New York on the liner *Virginia;* automobile tour of Havana, August 8; through the Panama Canal, August 11; sight-seeing in Los Angeles, Hollywood, Beverly Hills and Pasadena, August 19; 30-mile drive, San Francisco, August 21; by train to Portland, Ore., arriving on August 22 for a 72-mile auto trip along the Columbia River Highway; arrive in Seattle, August 23, for a sight-seeing tour of that city; arrive at Glacier National Park on August 24 for a one-day, 60-mile tour of the park; arrive in Chicago August 26 to spend a day at the Fair, or longer if desired. The tour ends in New York on August 27. All-inclusive rates for this circle tour from your home town and return, based on the type of accommodations selected, range from $357 to $434.

GLACIER - Yellowstone - Escorted Tour. Thirteen days in two of the greatest national parks, leaving Chicago and St. Louis on July 2, 9, 16, 30, and August 6, 13, 20. Hiking, horseback riding, motoring, launch trips on lakes, fishing, etc. Cost of complete tour, including Pullman, meals, lodging, motor trips and all necessary expenses, with round trip railroad fare—from Chicago, $178.85 to $187.40, depending upon Pullman accommodations; and from St. Louis, $183.73 to $192.95.

COLORADO - California - Grand Canyon-Escorted Tour. Fourteen days. Leave Chicago, June 18, July 2, 9, 16, 23, 30, August 6, 13. Denver, Colorado Springs, Salt Lake City, San Francisco, two days in Yosemite, two days in Los Angeles, one day at Grand Canyon. Complete cost, from Chicago and return, $216.18 to $229.90, according to Pullman accommodations.

CALIFORNIA-Pacific Northwest (Canadian Rockies)-Escorted Tour. Twenty-one days. Leave Chicago and St. Louis on June 25, July 2, 9, 16, 30, August 6. Denver, Colorado Springs, Salt Lake City, Los Angeles, Yosemite, San Francisco, Portland, Tacoma, Rainier National Park, Seattle, Victoria, Vancouver, Banff and St. Paul. Cost of complete tour, from Chicago, $290.35 to $306.65, and from St. Louis, $299.28 to $307.15, depending upon Pullman accommodations.

ZION - Grand Canyon - Bryce Canyon National Park - Kaibab National Forest. Cedar City, Utah, on the Union Pacific Railroad is the starting point of motor-bus tours to the scenic wonders of Utah. A typical 6-day tour, including meals, lodging and motor-bus transportation, costs $63.

ALASKA Trip. The Canadian Pacific Railway offers a 12-day cruise from Seattle to British Columbia and Alaskan ports, cruising 2,500 miles through sheltered waters on the steamer *Princess Charlotte*, for a minimum return fare of $125, including meals and berth.

GREAT LAKES Trips. Among these, on comfortable steamers, are the following: Buffalo to Chicago and return, 1,902 miles, stopping at Cleveland, Detroit, Mackinac Island and Milwaukee, $60, including meals and berth; Buffalo to Duluth and return, 2,952 miles, $98.50.

NEW ENGLAND Trips. The railroads now sell low rate, round trip tickets, good returning until October 31. Here are a few samples of the low round-trip fares now in effect from New York: to Bar Harbor, Me., $32.85; to Fabyan, N. H., $20.45; to Falmouth, Mass. (Cape Cod), $15.20;

GALLOWAY

Old

The Bavarian town of Dinkelsbuhl

to Lake Sunapee, N. H., $15.55; to Portland, Me., $20.10. The New England Council is cooperating with the resorts to insure every vacation pleasure at low cost.

European Tours

AN Educational Tour of Europe, under the leadership of American university men, visiting Spain, the Riviera, Italy, Switzerland, Germany, Austria, Hungary, Czechoslovakia, Holland, Belgium, France and England. Sail from New York on the Italian liner *Roma*, July 1; at sea, July 2 to 8; Gibraltar, July 9; Malaga, July 10; Villefranche, July 12 and 13; Genoa, July 14; Naples, July 15 to 17; Rome, July 18 to 21; Florence, July 22 to 24; motor trip over the Apennines to San Marino, July 25; Ravenna, July 26; Venice, July 27 and 28; the Dolomites, July 29; Italian lakes, July 30; Milan, July 31; Interlaken, August 1 and 2; Alpine motor tour, August 3; Lucerne, August 4; Lake Constance, August 5; Munich, August 5; Vienna, August 7 and 8; Danube, August 9; Budapest, August 10 and 11; Prague, August 12; railroad trip through Germany, August 13; Berlin, August 14 and 15; Heidelberg, August 16; Rhine trip, August 17; Cologne, August 18; Amsterdam, August 19; Brussels, August 20; Paris, August 22 to 24; London, August 26 to 28; Southampton, August 29; New York, September 4. Inclusive fare, $875.

BRITISH Countryside Tour. There are many shorter and less expensive tours of which this 26-day trip to England and Scotland is a sample: 10-day motor tour in Great Britain. From London through the Midlands to the English lake district, then to Scotland, first in and around Melrose, then Edinburgh and the Trossachs. Turning southward, stops are made at the cathedral city of York, at Stratford-on-Avon, Warwick, Lemington, and back to London and Southampton. Total cost, $313.50.

BRITISH Isles Tour, by private automobile. July 1 to August 20. Visiting Lakes of Killarney, Tralee, Limerick and the Shannon River, the west coast of Ireland, Connemara, Donegal, Giant's Causeway, Belfast, Dublin, North Wales, the English Lakes, Scotland and the Trossachs, Melrose, Durham, cathedral cities, Clovelly, Ilfracombe, Stonehenge, Winchester and London. 3,000 miles. Going and returning on the *Britannic*. Complete cost, $910, including cabin class accommodations at $287 for the round trip.

EUROPE, $5 a day in your own car. A man who claims to have traveled through the principal countries of Europe in his own car at a cost of $5 a day, sets down a few rules that make this possible:

Have a budget and stick to it. Bargain for your hotel accommodations, and obtain all prices in advance. Use small town inns rather than city hotels. Adapt yourself to the customs of the country, especially in meals. Travel slowly.

When one motors there are two great chances for economy. First, you have the opportunity of selecting a more modest hotel, and are in a better position to bargain for reasonable accommodations. There is also considerable saving in tips, taxis and porters' fees. This traveler asserts that this saving will amount in two months to the cost of transporting a car.

GALLOWAY

Paris
The Seine, from Notre Dame

ALL transatlantic ships, no matter what line or what country's flag they fly, are divided into grades according to age, size and speed. These grades determine the different rates. Below is a table of minimum rates for ocean passage.

Ports of England, Ireland and Scotland:		
First class	$132	to $233
Cabin class	111	to 154
Tourist class	94.50	to 125
Third class	74.50	to 97.50
Ports of Belgium, France, Holland and Germany:		
First class	$132	to $233
Cabin class	120	to 167
Tourist class	102.50	to 125
Third class	77	to 97.50
Ports of the Mediterranean:		
First class	$180	to $245
Cabin class	130	to 150
Tourist class	120	to 128
Third class	85	to 102
Tourist round trip	210	to 225

TWELVE transatlantic lines have united in a co-operative campaign to stimulate European travel this year. Several of them —like the Cunard, the I.M.M., the French Line, the U. S. Lines, the Holland-American, and the Hamburg-American—are advertising "Economy Tours".

For example, a 35-day tour to England, France, Germany, Holland and Belgium for $295; a 23-day trip to Paris for $171.50, etc. It is said such low-cost tours are made possible by the low steamer fares and the lowest travel costs abroad in years.

GALLOWAY

Holy Year
St. Peter's, at Rome

For Sale or Rent

Specific Cases—

Apartment Houses

Business Buildings

Private Residences

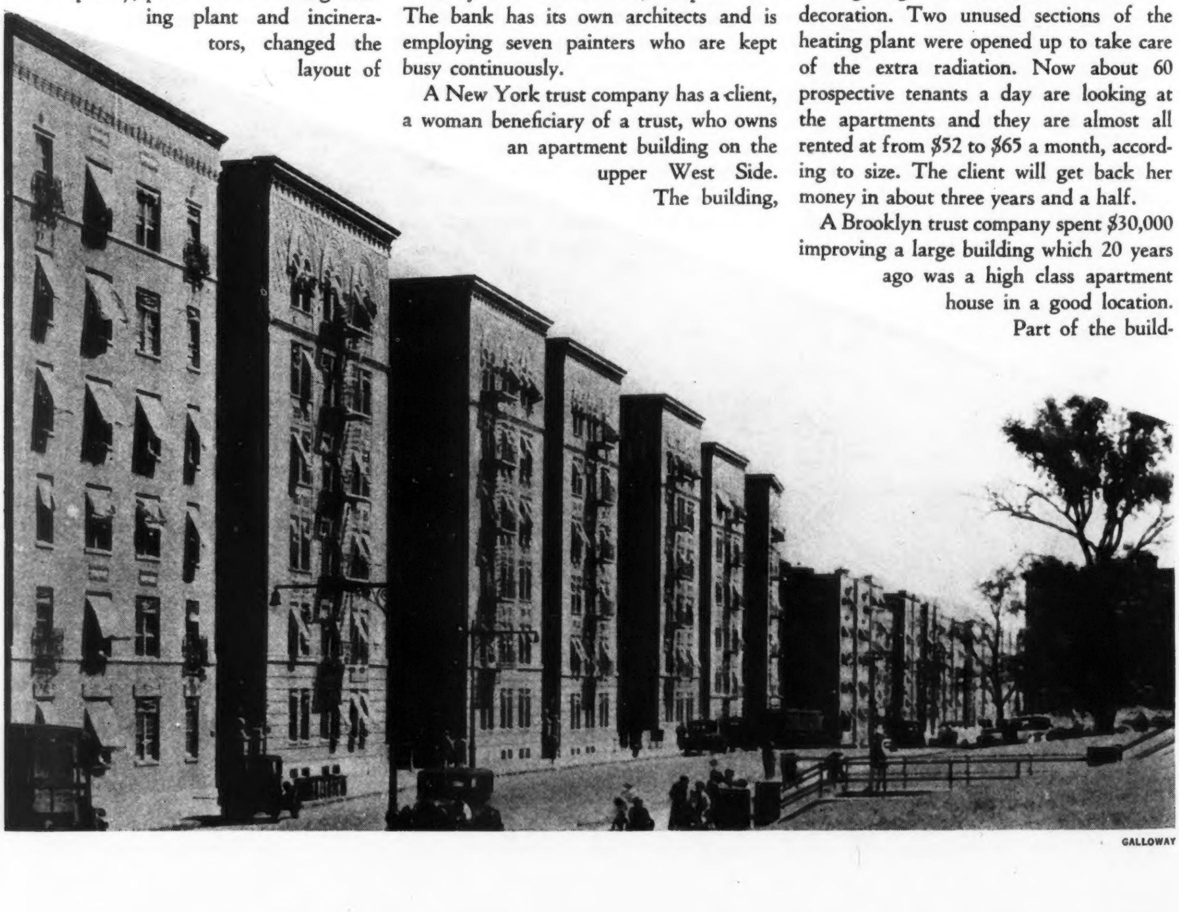
INSTEAD of losing 3 per cent on an investment of $40,000 a large New York City savings bank is getting 6 per cent on an investment of $80,000, because it had the good business judgment to spend $40,000 in modernizing a group of 40-year-old tenement properties on the lower East Side which it had had to take over on mortgage foreclosure. Until a year or two ago there had been no loss on the investment as the owner kept up his mortgage payments. But then he neglected the property. It became run down and all the tenants—46 of them—began to leave. The apartments were of the type known as "cold water". Tenants had to furnish their own heat. There were iron sinks in the kitchens and lavatories only in the halls.

The bank remodeled the buildings completely, put in an oil-burning heating plant and incinerators, changed the layout of the rooms, put in French doors, eliminated the "stoop stores" on the first floor and added four apartments. Now the buildings are entirely rented, and there is $14,000 a year coming in instead of several thousand going out. At that rate the improvements will pay for themselves in three years. The tenants are local merchants and small shopkeepers who formerly lived in the Bronx but are now coming back to be near their places of business. The building is near the famous Henry Street Settlement.

This same bank has done 15 other renovation jobs similar to this, all profitable. The bank has its own architects and is employing seven painters who are kept busy continuously.

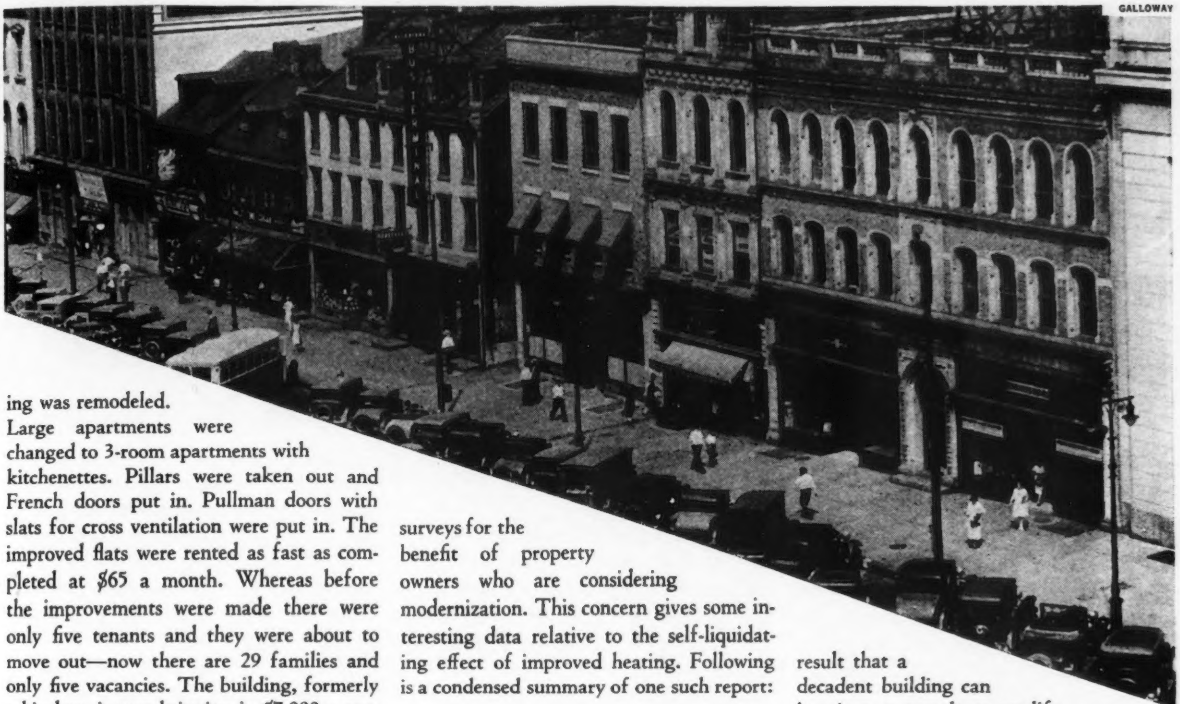
A New York trust company has a client, a woman beneficiary of a trust, who owns an apartment building on the upper West Side. The building, which is a brick and brownstone front and had ten apartments (one 7- and one 8-room apartment on each of five floors), is in a section formerly largely occupied by furnished room buildings. The demand for them ceased. Out of the ten apartments in this particular building, only three were rented at nominal rates. The trust officers persuaded this client to put $18,000 into improvements to modernize the building, changing the larger apartments into 3- and 4-room ones. The improvements included hardwood floors, tiled baths, new plumbing and lighting fixtures, incinerators and redecoration. Two unused sections of the heating plant were opened up to take care of the extra radiation. Now about 60 prospective tenants a day are looking at the apartments and they are almost all rented at from $52 to $65 a month, according to size. The client will get back her money in about three years and a half.

A Brooklyn trust company spent $30,000 improving a large building which 20 years ago was a high class apartment house in a good location. Part of the build-



GALLOWAY

GALLOWAY



ing was remodeled. Large apartments were changed to 3-room apartments with kitchenettes. Pillars were taken out and French doors put in. Pullman doors with slats for cross ventilation were put in. The improved flats were rented as fast as completed at $65 a month. Whereas before the improvements were made there were only five tenants and they were about to move out—now there are 29 families and only five vacancies. The building, formerly a big loss, is now bringing in $7,000 a year over the carrying charges.

The same company had foreclosed on a 4-story brick building, entirely vacant. It was remodeled into 6-room apartments with craftex walls. Before the workmen were out three floors had been rented and it has all been rented since.

There was a savings institution that had to take over a group of old-fashioned apartment buildings. It remodeled extensively, making garden apartments, that is, there is now a court with grass and trees in the center. Considerable money was spent, but the results have been so good (rentals were quadrupled) that the bank is going ahead with several other similar propositions.

A large manufacturer of heating apparatus has a service department which makes surveys for the benefit of property owners who are considering modernization. This concern gives some interesting data relative to the self-liquidating effect of improved heating. Following is a condensed summary of one such report:

INCOME MORE THAN DOUBLED

BUILDING: Two 5-story brick tenement houses, back to back, two stores and 12 4-room apartments in each. Tenants supplied own heat and hot water. Hot water and steam heat were put in at a cost of $8,000.

Income: The former rentals averaged $16; now the average is $32. There were six vacancies, but there are now none. The increase in the net income is $3,780 a year. The owner says, "Our investment will be returned in a little over two years, and our subsequent return yearly will be exceptionally high."

The arrangement, appearance and even the entire character of a building can be altered through modernization, with the result that a decadent building can be given a new lease on life and brought into the profit-making class again.

A financial institution in Atlanta, Georgia, came into possession of an old 6-story building in the center of the city, in which a moving picture theater occupied the greater portion of the first two floors. Architects were engaged to modernize the building so that it could compete more favorably with other buildings, both new and modernized. Two floors were added. The theater was removed and its space was used for stores on the first floor and offices on the second. New elevators were put in. The main entrance was changed from the end to the middle of the building on the best street. The exterior walls of the first two floors are now black glazed brick and the store fronts are aluminum. It is a much more attractive building and a paying investment instead of a failure.

Another bank acquired a 7-story loft building by the foreclosure route. It sandblasted the front, put in new flooring throughout and repainted everything. It quickly sold the building and got all of its money out of it.

Still another bank came into possession of a corner lot containing a 100-year-old wooden house. It tore down the building and put up a 1-story brick store building 25 x 75 feet at a cost of $7,266. For the two stores the rental now obtained is $7,500 a year. The bank will pay for the building from rentals in two years.

A savings bank has had to take over a number of private dwellings on Long Is-

●

To lose a tenant in this buyer's market, because of the failure to authorize a modest expenditure, will probably require redecorating and remodeling before a new tenant can be obtained, at an expense far in excess of the original request. But this market does produce the curse of special inducements in the form of secret rent concessions, payment of moving expense, additional decorating, floor covering, and so on, down the long, long list. The manager who is weak and succumbs to these practices is slowly and surely digging his own business grave. There are no secrets among tenants, and the exact instant the information regarding concessions leaks out, and it invariably does, the seed of discontent and distrust has been sown. Tenants, being human, like to know they are being dealt with fairly and squarely.

—SAMUEL C. WAUGH, Executive Vice-President
First Trust Company, Lincoln, Nebraska

GALLOWAY

land. They were rather run down. All were repaired and repainted, and in some cases oil burners were installed. Some were sold and all the others rented profitably. In the present market the bank is not pushing sales so hard, but feels that by keeping the properties up the bank will be several steps ahead of others when the real estate market does come back and there is a demand for private homes again.

A title company which is endeavoring to sell a number of "repossessed" homes for little more than the amount of the mortgage and is having fairly good success, advertises in the newspapers the special opportunities offered by some of the properties. For example here is the wording of two such advertisements:

SUITABLE FOR FURNISHED ROOM HOUSE

House very well constructed and entirely renovated—plumbing, decorating, gutters, leaders, roof, etc. Plot 50 x 100. House has nine rooms, including living room, dining room, kitchen and sun porch. A 26 x 12 rear extension on the first floor; on second floor, 3 bedrooms and one bath; on third floor, 3 bedrooms with space for extra bath if desired. 1-car garage at rear of plot. All improvements. Conveniently located. Excellent for furnished room house. Price so low as to warrant the making of improvements required.

COULD BE ALTERED TO SUIT

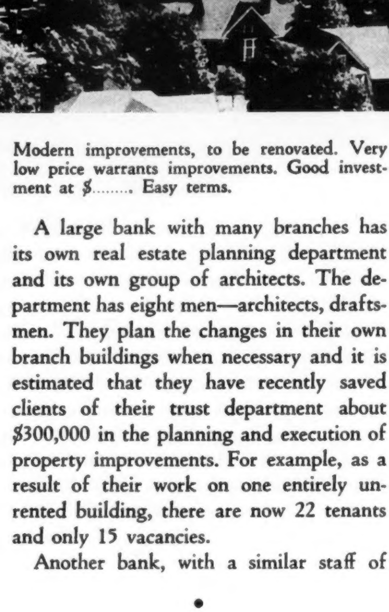
Plot 23 x 100. House 22 x 45, could be altered for several purposes, but originally used for two 5-room and 1-bath apartments. Brick. Modern improvements, to be renovated. Very low price warrants improvements. Good investment at $........ Easy terms.

A large bank with many branches has its own real estate planning department and its own group of architects. The department has eight men—architects, draftsmen. They plan the changes in their own branch buildings when necessary and it is estimated that they have recently saved clients of their trust department about $300,000 in the planning and execution of property improvements. For example, as a result of their work on one entirely unrented building, there are now 22 tenants and only 15 vacancies.

Another bank, with a similar staff of specialists, makes every effort to get real estate off its hands as quickly as possible. It locates a prospective buyer and agrees to pay half the cost of necessary improvements if he will take the property. This works to the advantage of all concerned, especially when the buyer is himself a mechanic, builder or broker.

Still another large bank, which has its own staff of three architects and an engineer, does not like to hold real estate any longer than it has to. It will not go into extensive developments on its own account, but it will sell parcels to a syndicate for improvement on a large scale. The bank's experts find that in some cases where a proposition is put up to the bank to divide the cost of an improvement, promoters boost the alleged costs to such an extent that the bank would be paying a good deal more than half while the promoters would be putting up practically nothing. Having its own experts it is able to protect itself.

One thing is certain, the cost of building and renovating is now low. One banker estimates it as 40 per cent less than five years ago, although costs have started going up, especially the cost of materials. Labor is still at a low figure. Workmanship is better and cheaper now than formerly. Mechanics are so anxious to get and keep jobs that they are doing the best work they can.

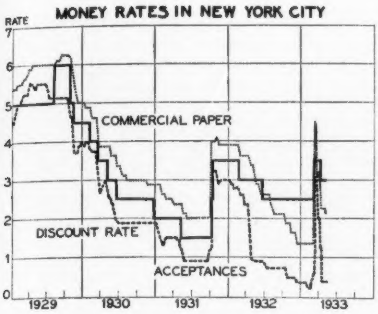


EXPENDITURES reaching $5,000,000 for labor and materials by local property owners during the next six months, is the goal set by a committee of business and civic leaders now actively sponsoring the Renovize Washington Campaign, according to the Home Modernizing Committee, Bureau of Standards.

The first announcements of the drive include a contest for choosing the best plans for completely modernizing and equipping a dilapidated house over 60 years of age. Practically every building trade will be utilized in the public demonstration of home remodeling in connection with the day to day modernizing of this old structure, with local housing experts in attendance to answer home owners' questions. In order to make provisions for immediate financing, leading financial institutions are represented on the local committee and the District Bankers' Association has made available a special credit pool for further aid.

Of these campaigns, the most outstanding to date is the Renovize Philadelphia Campaign, of which the local organization estimates that $14,000,000 of the total expenditure by property owners of $21,000,000 will go directly to labor and furnish approximately one month's work for 138,000 men.

Of large importance is the circumstance that banks in many cities have announced their willingness to lend liberally to finance improvements. Bankers generally know that a few hundred dollars spent in modernizing a house materially adds to the value of the property. The marketability of the property is increased and the whole tone of the neighborhood raised. The banker knows that his security is greater when improvements are made. —*From a recent statement of the Department of Commerce.*



CONVENTION CALENDAR (1933)

A. B. A. MEETINGS

June	12–16	A.I.B. Convention, Chicago.
Sept.	4–7	A.B.A. Convention, Chicago.

State Associations

June	1–2	South Dakota Bankers Association, Mitchell.
June	5–6	Illinois Bankers Association, Chicago.
June	8	West Virginia Bankers Association, Charleston.
June	9–10	Idaho Bankers Association, Boise.
June	12–13	Oregon Bankers Association, Gearhart.
June	14–15	Indiana Bankers Association, Indianapolis.
June	14–15	Ohio Bankers Association, Columbus.
June	15–16	Wisconsin Bankers Association, Green Lake.
June	15–16	Washington Bankers Association, Seattle.
June	16–17	Colorado Bankers Association, Estes Park.
June	16–17	Maine Bankers Association, Rangeley.
June	16–17	Utah Bankers Assn., Ogden.
June	19–21	Iowa Bankers Association, Sioux City.
June	21	Connecticut, New Haven Country Club.
June	22–24	Virginia Bankers Association, Hot Springs.
June	23–24	North Dakota Bankers Association, Valley City.
June	26–27	New York Bankers Association, Lake George.
June	29–30	Michigan Bankers Association, Detroit.
June		Minnesota Bankers Association, Minneapolis.
July	28–29	Montana Bankers Association, Helena.
Sept.	1–2	Wyoming Bankers Association, Casper.
Sept.	7	Delaware Bankers Association, Rehoboth.
Sept.		Kentucky Bankers Association, Louisville.

Other Financial

June	19–24	National Association of Credit Men, Milwaukee.
Oct.	28–Nov. 1	Investment Bankers Association of America, Hot Springs, Va.
Oct.		National Conference of Bank Auditors & Comptrollers, Chicago.

PILING ON THE HARNESS

CHICAGO DAILY TRIBUNE

INDEX TO ADVERTISERS

JUNE, 1933

The June Question—

How Can Banks Participate Most Effectively in President Roosevelt's Program?

IN 14,000 banks and their staffs of a quarter million men and women experienced in the problems of banking and business, the country possesses a group which can be of great assistance in the accomplishment of the President's program of recovery.

The will to cooperate to the fullest degree exists in every officer and private in this army of workers; the problem is to devise ways and means by which banking can make itself most useful in achieving the desired end.

Here is a matter that concerns everyone in the banking field—a subject which has been receiving careful thought.

State in 150 words just how you think banks can cooperate in the President's program. Be as specific as possible in your recommendations. Your contribution will be given every consideration in awarding the prizes of $100 which will be paid on June 30.

IN the following paragraphs, we summarize the steps which were taken by the President during his first two months of office to revitalize banking and business:

March 5. Declared a banking holiday and summoned a special session of Congress.

March 8. Started an investigation of gold hoarding through the Federal Reserve banks.

March 9. Approved the emergency banking act which he had requested earlier in the day, giving him complete authority to handle the situation.

March 10. By executive order, authorized reopening of all Federal Reserve members that were in position to resume business. Requested from Congress broad powers to cut Government costs.

March 12. Addressed the nation over radio, asking for support of the country in meeting banking emergency.

March 14. Began work on a program of farm relief.

March 16. Sought from Congress legislation to raise commodity prices.

March 20. Signed the bill which effected a billion dollar saving in Government expenses.

March 22. Tackled tariff and war debts problem.

March 24. Developed plan of railroad coordination.

March 26. Merged all agricultural credit bureaus and abolished the Federal Farm Board.

March 29. Sought Federal control of securities sold or advertised for sale in interstate commerce and prepared bill.

April 3. Recommended two billion dollar bond issue to help farmers, to be handled by Federal land banks.

April 5. Ordered the return of gold by hoarders.

April 10. Asked Federal development of Muscle Shoals, and the improvement of Tennessee River Valley.

April 13. Sought relief for small home owners.

April 19. Placed embargo on gold exports, thus taking country off the gold standard.

April 20. Asked for a program of "controlled" inflation.

April 21 and later. Met delegates of various foreign countries to secure international cooperation in the stabilization of money and the rebuilding of international trade.

May 4. Asked banking and currency leaders for aid in drafting legislation to remedy banking weaknesses.

May 9. Conferred with Senator Glass on banking reform bill.

WIDE WORLD

"TWO months ago trade and commerce had declined to dangerously low levels, prices for basic commodities were such as to destroy the value of the assets of national institutions such as banks, savings banks, insurance companies and others. These institutions, because of their great needs were foreclosing mortgages, calling loans, refusing credit. Thus there was actually in process of destruction the property of millions of people who had borrowed money in terms of dollars which had an entirely different value from the level of March, 1933.

"It was clear that mere appeals from Washington for confidence and the mere lending of money to shaky institutions could not stop this downward course. A prompt program applied as quickly as possible seemed to me not only justified but imperative to our national security.

"The legislation which has been passed or is in process of enactment can properly be considered as part of a well-grounded plan."

—From President Roosevelt's radio address May 7.